

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

Mail Processing Network Rationalization :
Service Changes : Docket No. N2012-1

INITIAL BRIEF OF THE GREETING CARD ASSOCIATION

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I. INTRODUCTION

The Greeting Card Association's position in general. The Greeting Card Association (GCA) files this Initial Brief¹ to explain its recommendation that, even though the ultimate goal of the Postal Service project underlying the service change on which this Docket turns is appropriate and indeed necessary, the Commission should not render an advisory opinion approving the service change as presented. Central to this position is the all-important distinction between the delivery service change the Commission is to evaluate and the processing network streamlining effort which the Postal Service says necessitates that change.

GCA has long advocated elimination of processing facilities not needed to handle current and foreseeable volumes of mail. We recognize that mail volume is declining and probably will continue to do so. The prospect of shrinking the processing network from nearly 500 plants to perhaps half that number – considered by itself – is a welcome one, and we believe that planning for a reduction of that magnitude is reasonable in light of probable future needs.

¹ A number of technical matters, in some cases summarized here, are discussed in detail in the Detailed Analysis, which is a part of this Initial Brief.

To understand why GCA's position makes sense, one must first recognize the inherent distinction between the Postal Service's Mail Processing Network Rationalization (MPNR) plan, which could substantially reduce overall costs, and the degradation of First-Class and Periodicals delivery service which the Postal Service asserts is a necessary consequence of network rationalization. (We will see later that it is not.) It is vital to keep this distinction in mind because the Commission's task under 39 U.S.C. § 3661 is to evaluate the service change – not the MPNR itself. Since the latter is essentially a managerial initiative which the Postal Service can pursue on its own (assuming compliance with statutory and contractual obligations, and no legislative intervention), the Commission has, at most, limited ability to condemn or even challenge the MPNR even though the service reduction said to be linked to it clearly fails to satisfy § 3661. The Commission must, however, ask itself, and decide, whether this major degradation in service is really necessary to achieve substantial streamlining of the processing network. It seems clear that the Commission, on the record in this case, both can and should recommend that the Service pursue network rationalization scenarios which do *not* entail a change in service.

There are, of course, linkages between the MPNR plan and the service reduction – most obviously, because the Postal Service states that the second follows necessarily from the first. This means that among the Commission's first priorities should include testing this alleged causal link. In evaluating the service reduction, the question, GCA suggests, should be not merely whether the Postal Service's MPNR plan as presented by its witnesses actually entails the service reduction² but – perhaps more importantly – whether other network rationalization plans producing substantially similar degrees of streamlining and cost reduction could be executed without degrading service. The record made in this case demonstrates that such plans are indeed possible. It would be irrational for the Commission to recommend favorably a degradation of service entailed (or

² And if it appears to do so, why. In other words: did the study which produced the MPNR plan inappropriately preordain the ending of overnight delivery? See Section III.B., below.

claimed to be entailed) by a particular plan if other plans, not so disadvantaged, offered closely comparable financial benefits.

The structure of this Brief. In this Initial Brief, we will first focus on how network streamlining could have been approached without the necessity of eliminating all overnight delivery. In this connection, we will concentrate on testimony offered by the Public Representative and the Commission's expert witnesses. Portions of the Detailed Analysis address this issue in more detail.

This inquiry is relevant particularly because, while the MPNR-cum-service reduction plan presented here could save substantial sums, it remains true that the ultimate reason for streamlining the processing network is to shore up the Postal Service's finances.³ As the Service generally recognizes, ending overnight delivery for much First-Class Mail, a step it claims the Mail Processing Network Rationalization (MPNR) project entails, will cause further losses in volume and revenue. If the Postal Service has materially underestimated those losses, the financial benefit from MPNR will be less than expected, and may make the whole project unattractive in terms of its ultimate financial objective. That, of course, would be a further reason for choosing a processing network rationalization plan which preserves existing service standards.

A second focus will be on the Postal Service's own design for MPNR.

Many, if not most, of the deficiencies in the Postal Service plan stem from the narrow focus of the analysis underpinning it. GCA believes that this analysis was unduly restricted in at least two ways:

- It focused exclusively on *this* service reduction, ignoring the fact that it would occur in the context of other degradations of service (especially for

³ See USPS-T2 (Masse), especially pp. 10-12.

Single-Piece First-Class Mail): plans to close numerous small post offices and some stations and branches or to reduce their hours of service; removal, over the years, of many street collection boxes; and, potentially, an end to Saturday delivery and carrier pickup.

- Detailed planning, once it began, was based on the mandatory assumption that overnight delivery would be eliminated. Possible scenarios in which an expansion of the Delivery Point Sequencing (DPS) window sufficient to allow substantial network streamlining without elimination of (all) overnight delivery were not considered – though, as other evidence of record shows, they could have been.

The first bulleted point is important because, while it is possible, and may be useful, for an enterprise to evaluate a project in such a way that only its unique benefits and costs are identified, its customers do not necessarily take the same view. For them, the totality of changes to the service in question is likely to determine how – or whether – they will continue to purchase it. Particularly since the ultimate goal is to bolster the Service's financial position, it is worth noting that revenue lost when a mailer switches to e-media is lost whether or not the last service change before the customer left the system was the sole cause of his doing so. We discuss this question in section III.A., below.

Once it is recognized (as the Postal Service has recognized in this case) that reducing the quality of service will lead to some loss of traffic, it is appropriate to compare varying degrees of service reduction, and concomitant cost savings, against the corresponding degrees of volume and revenue loss. For this reason, the second bulleted point above is also highly significant.⁴ The problems

⁴ In some industry settings, it may be that the most remunerative course will be to maximize savings, even at the cost of a substantial loss of traffic. For that to be a safe course, however, the loss of traffic must be estimated at least realistically, and preferably with high accuracy (hence the relation between the two bulleted points).

raised by the way the Postal Service structured its evaluation are discussed in section III.B.

Thirdly, a number of technical issues potentially affecting the Postal Service's estimate of savings also require discussion. See section IV, below.

Finally, we discuss (section V) a statutory issue which the Commission will need to resolve before deciding on its recommendation: whether the proposed service change, by creating separate business rules under which some Presort First-Class Mail, but no Single-Piece mail, could obtain overnight delivery runs afoul of 39 U.S.C. § 404(c).

II. THE POSTAL SERVICE CAN SUBSTANTIALLY REDUCE ITS MAIL PROCESSING CAPACITY WITHOUT DEGRADING SERVICE

In assessing a proposed service reduction under § 3661, the Commission must inquire, among other things, whether the change is necessary to obtain the benefit the Postal Service is pursuing. If the same, or substantially the same, benefit could be secured without degrading the nature of service, that is evidently the course that should be followed. This is a matter not merely of common sense, but also of compliance with the statute. A Commission opinion favorably recommending a service change must "conform[] to the policies established under this title." There is no such policy which would countenance unnecessary reductions in service quality, and §§ 101(a), and 403(a) and (b), clearly point in the opposite direction.

The record in this case shows that the Postal Service can achieve essentially the same financial benefit without changing the overnight delivery standard. That is what the Commission should recommend.

A. The record supports a finding that extensive elimination of redundant processing capacity does not require degradation of service

The Public Representative's witness. The Public Representative sponsored the testimony⁵ of a well-qualified operations research expert, Dr. Subramanian Raghavan. His presentation covers both the errors he discerned in the Postal Service's analysis and a simulation he performed, using the same LogicNet software employed by the Postal Service's analyst, Ms. Rosenberg. We are concerned here with the latter aspect of his testimony. Others are discussed in the Detailed Analysis.

The relevant part of Dr. Raghavan's testimony focuses on alternatives to witness Rosenberg's optimization results. He re-ran the LogicNet model without prescribing an end of overnight delivery. Specifically, he "asked" the LogicNet model to optimize the Postal Service's network assuming that current service standards remained in place. He found that major deficit reductions in plant and equipment could be achieved *without* ending overnight delivery or making other changes to current service standards. He explains that he adjusted, as best he could, the inputs to the LogicNet model "so that they represent[ed] the demands, capacities, costs, and system constraints consistent with the current operating environment."⁶ It is important to note that Dr. Raghavan, so far as possible, replicated Ms. Rosenberg's procedures, using different inputs as needed to reflect current service standards.⁷ (As will be seen later, Ms. Rosenberg constrained her analysis *not* to consider current standards, but to assume elimination of overnight delivery throughout.) In other words, Dr. Raghavan's simulation did not depart from the Postal Service's essential methodology. Any theoretical objection to the way in which he used the LogicNet program would apply equally to the way the Postal Service used it.

⁵ PR-T-2.

⁶ PR-T-2, p. 34; Tr. 10/3135

⁷ Id., pp. 33-34; Tr. 10/3134-3135.

His conclusions are set out at pp. 42-45 of PR-T-2. His work with the LogicNet program produced two alternative solutions under current service standards: one, using Ms. Rosenberg's assignment of 3-Digit ZIP codes, indicates that all the requirements she imposed could be met with 239 plants. The second, with those assignments modified to reflect the minimum distance from a 3-Digit ZIP code to a plant, indicates that 277 plants would suffice. Thus, of the 476 plants considered by Ms. Rosenberg, Dr. Raghavan's analysis shows that 199 or 237 could be eliminated. This is, admittedly, a smaller reduction *in number of plants* than the 277 closures or consolidations contemplated by the Postal Service.⁸ The more important question, however, is whether the *savings* from an initiative corresponding to Dr. Raghavan's work would also be smaller. It seems clear that in fact they would not.

The effect of preventing volume loss. It is here that the narrow focus of the Postal Service's opinion research, which we criticize on other grounds elsewhere⁹, does prove useful. The Service estimated a net revenue loss *solely from the ending of overnight delivery* of \$498 million.¹⁰ It follows that if overnight delivery is *not* ended, this half-billion of net revenue will not be lost.

As Dr. Raghavan points out¹¹, the LogicNet model does not produce savings estimates. Nevertheless, it is possible to approximate the difference in savings between his approach and the Postal Service's. The gross saving originally estimated by Postal Service witness Whiteman was \$2,574 million. If, as indicated above, this would result from closing 277 plants, then the average saving per

⁸ We are here using the figures put forward in the original Request, since those are the ones Dr. Raghavan worked with. The program of closures and consolidations reflected in Postal Service LR-82 – which takes into account the AMP study results as of February 23, 2012 – is of course less extensive.

⁹ Section III,A., below.

¹⁰ USPS-T-12, p. 22, Chart 1 (Whiteman).

¹¹ PR-T-2, pp. 4, 34; Tr.10/3105, 3135.

closing would be $\$2,574 \text{ million} / 277 = \9.29 million . But the *net* saving, after volume and net revenue losses occasioned by the service change, was only \$2,076 million.

On the less ambitious of Dr. Raghavan's two scenarios, reflecting a need for 277 plants in the realigned system, there would be $476 - 277 = 199$ closures. The gross saving, at the average value just given, would be $199 * \$9.29 \text{ million} = \$1,849 \text{ million}$. If only 239 plants remained in use – Dr. Raghavan's other solution – then the gross savings would be $237 * \$9.29 \text{ million} = \$2,202 \text{ million}$. But in both cases, the gross and net savings would be identical, since the net revenue loss from ending overnight service simply would not occur. Consequently, the two scenarios Dr. Raghavan presents could save, roughly, either \$227 million less than the original Postal Service plan, or \$126 million more.¹²

But that is not the end of the matter. Following completion of the AMP studies, the Postal Service filed supplemental testimony reflecting the reduced schedule of closings and consolidations finalized, or largely finalized¹³, on February 23, 2012. Of most interest here is witness Bradley's revised total savings estimate. Dr. Bradley, using updated inputs from other witnesses, put the gross savings at \$2,061 million.¹⁴ Since there is no change of plan with respect to volume and net revenue losses¹⁵, the resulting net saving would be $\$2,061 \text{ million} - \$498 \text{ million} = \$1,563 \text{ million}$.

¹² To be consistent with both Ms. Rosenberg's and Dr. Raghavan's LogicNet results, we have started with the total of 476 plants used in those exercises, rather than the 487+ plants actually existing, according to Postal Service witness Neri (USPS-T-4, p. 2).

¹³ The preface to Postal Service LR-82 states that some plants still under study would be assumed to be closed or consolidated. Library Reference N2012-1/82, "Updates Network Rationalization Modeling Nodes," Preface. LR-34, to which LR-82 is an update, employed a similar assumption.

¹⁴ USPS-ST-4, pp. 15-16 and Table 11.

¹⁵ Mr. Whiteman, who made these estimates originally, did not file supplemental testimony – nor, seemingly, would there have been any reason for him to do so, since public reaction to the prospective service change would not depend on the number of plants closed.

We have, of course, no comparable figure for a smaller-scale¹⁶ network rationalization which retained overnight delivery. Dr. Bradley's revised estimates reflect not just a high-level simulation exercise but also the combined results of a large-scale AMP effort focusing on individual plants. It remains true, however, that as the gross saving shrinks along with the number of plants subject to closure, the estimated volume loss – which the Service took pains to insure would reflect the ending of overnight service and nothing else – does not. That the gross savings are more than \$500 million smaller than originally estimated underscores the potential benefit, which the Service ignored, of seeking an alternative solution which would not cost it almost \$500 million in net revenue.

The Commission's witnesses. The Commission has enhanced the record by sponsoring the testimony of two witnesses, Messrs. Matz and Weed, who provided another alternative proposal. Their suggestion would preserve overnight delivery for intra-SCF (turnaround) mail but not otherwise. Unlike the Postal Service's and Dr. Raghavan's presentations, it is not based on a simulation exercise. Instead, they use operating statistics to formulate their plan. While their exercise has certain limitations, it does make valuable points.

Mr. Matz's testimony covers two main areas: a critique of the operating plans associated with MPNR, and the question whether overnight delivery could be retained for intra-SCF mail.¹⁷ We are concerned here only with the second aspect.

Mr. Matz cogently challenges the notion, designed into the Postal Service proposal practically ab initio, that overnight delivery must be abolished for all First-Class Mail (except Presort entered at certain early hours). He demon-

¹⁶ That is, one analogous to the plan reflected in Postal Service LR-82.

¹⁷ PRCWIT-T-2, p. iii; Tr. 11/4066.

strates that, using the Postal Service's own (original) proposed plant structure, 46.5 percent of the turnaround volume will remain for processing in the same plant where it is processed now.¹⁸ He calculates that – using Single-Piece mail to "bring focus to the impact on mail processing sortation operations" – 74 percent of the overnight-committed volume is turnaround mail.¹⁹ Under the alternative he describes, which ends overnight delivery only for inter-SCF mail (so that *all* the overnight mail is intra-SCF), the DPS window "nearly doubles" because no overnight-committed mail would be arriving from other plants. An important conclusion, which he states at pp. 6-7 of PRCWIT-2, is that

. . . OND [i.e.,overnight delivery] can be maintained by leaving DPS on Tour 1, while eliminating the OND requirement for Inter-SCF (OND mail from other plants). If Inter-SCF is eliminated, the DPS window nearly doubles, thus creating the opportunity to capture much of the savings as identified in N2012-1. The DPS second pass would therefore be able to start shortly after the completion of outgoing primary (OGP) operations. . . .

Mr. Matz provides a practical illustration, using the western Washington area. Under the Postal Service's proposal, he points out,

. . . *all* of Seattle's mail would move to 2-Day, just so that Everett, Tacoma, and Olympia can be consolidated into it. Our alternative would preserve OND for Seattle's turnaround mail, yet still create the opportunity to either reduce DBCS equipment or consolidate one or more facilities into Seattle.^[20]

Again, as with Dr. Raghavan's analysis, we have no overall estimate of savings. This is understandable, since Mr. Matz also advocates an incremental or plant-by-plant procedure based on the concept of retaining intra-SCF overnight service. As a result, we cannot make even the rough estimate which Dr. Raghavan's two alternative solutions allowed for. Nonetheless, Mr. Matz's con-

¹⁸ Id., pp. 8-9 and Table 5; Tr. 11/4076-4077.

¹⁹ Id., p. 6; Tr. 11/4074.

²⁰ Id., p. 9.

ceptual criticism remains valid. As we show elsewhere, the Postal Service, after an extremely high-level preliminary analysis, opted to pursue (what appeared to be) maximum savings more or less without regard to the effect on service quality. Its detailed analysis was explicitly premised on the elimination of almost all overnight service (and, for Single-Piece, absolutely all). It has now been shown that this was unnecessary.

B. Testimony attacking the MPNR itself is of little use to the Commission

The witnesses discussed above demonstrate that there is no necessary connection between usefully streamlining the processing system and degrading delivery service. That circumstance makes it easier for the Commission to concentrate on its main task, which is to test the proposed service change against the policies of Title 39. The Postal Service's view that processing system realignment and service reduction are inextricably linked is a contention of fact, which by its nature may be erroneous. GCA believes it clearly is, and in other sections of this Brief we show why. The record demonstrates that large-scale rationalization of the mail processing network can be achieved without wholesale changes in service standards, and very likely with no change at all. It follows from this that presentations attacking the MPNR itself contribute little or nothing to the Commission's decisional process.²¹ Unfortunately, the record has become encumbered with testimony of this kind.

A good example of such a presentation – not the only one -- is the testimony of NPMHU witness Hogrogian.²² Mr. Hogrogian's presentation addresses

²¹ It is possible that such a presentation could suggest that savings from the MPNR are overestimated (or, indeed, underestimated); and this would affect any analysis of whether the MPNR justified the change in service quality. But if it is shown, as we think it has been, that the Postal Service can effectively rationalize its processing system without degrading service, this becomes a less prominent issue.

²² NPMHU-T2; Tr. 10/3351 et seq. Mr. Hogrogian is an experienced Postal Service employee and President of NPMHU Local 300. NPMHU presents six witnesses of similar background, whose testimony makes largely similar points regarding other local situations.

(what he sees as) unanticipated inefficiencies in the Postal Service's plans for the Staten Island P&DC, perceived shortcomings in the Service's reception of public input, and a failure to realize labor efficiencies by realigning processing windows. His testimony proper contains not a word about the changes in the level of service to be provided to the mailing public.²³ The same could be said of most of the detailed critiques offered by NPMHU's mail handler witnesses. Mr. Hayes²⁴ is the only one to offer any details on the effect the service change would have on the (local) public. His point is that the rural areas where the facilities he describes are located have above-average percentages of senior residents, and are especially dependent on the mails. This is doubtless both true and useful to know – but it is not a reason to refrain from eliminating redundant plants if that can be done without degrading service.

This is not to say that detailed information on the impact of the service change is unhelpful, even when the witness supplying it is (also) opposing aspects of the MPNR. NNA witness Bordewyk's testimony²⁵ is a good example. If, as may be the case, Mr. Bordewyk takes for granted the inevitability of ending overnight delivery if worthwhile network rationalization (possibly including the South Dakota plant closures) is effectuated, we have to disagree with him. That does not diminish the usefulness of his description how the service change would affect a thinly-spread rural population. The testimony is thus valuable – but because it illustrates the bad effects of degrading delivery service. Once it is realized that such degradation is not a necessary consequence of rationalizing the processing system, such effects can be given their full weight in evaluating the proposed ending of overnight delivery.

²³ We say "his testimony proper," because the changes are mentioned, though not discussed at any length, in the two Postal Service documents attached to the testimony.

²⁴ NPMHU-T6, pp. 3-4; Tr. 10/3500-3501.

²⁵ NNA-T-2; Tr. 10/3046 et seq.

III. THE DESIGN OF THE POSTAL SERVICE'S ANALYSIS WAS BOTH TOO NARROW AND INHERENTLY BIASED

In this section of our Brief, we take up the issues presented by the design of the Postal Service analysis underlying its decision to eliminate most overnight delivery for First-Class Mail and Periodicals.

A. The overly narrow focus of the impact study

While the ultimate objective of the plan the Postal Service presents in this case is appropriate, the plan itself suffers from undue narrowness of approach. This deficiency is an important reason for the Commission not to give it a favorable recommendation. In saying this, we distinguish between the cost-reduction objective of the mail processing network realignment and the service reduction which, according to the Postal Service, necessarily accompanies it.²⁶ It is the latter which the Commission is to evaluate under 39 U.S.C. § 3661. To qualify for a favorable advisory opinion, the change must "conform[] to the policies established under this title [i.e., Title 39, U.S.C.]." Consequently, the Postal Service does not satisfy its burden under § 3661 simply by showing that the network realignment would yield substantial savings, important as that objective is. The Commission must decide whether the service change would satisfy, e.g., §§ 101(a), 403, and 3691(b) and (c). The narrowness of the Postal Service's planning and evaluation effort makes it overwhelmingly unlikely that favorable findings on issues like these could be supported on this record.

In this section we deal with the inadequacies of the Service's narrowly focused study of the effects of ending overnight delivery. These considerations are of particular interest because they show that, given the necessary breadth of the Commission's inquiry under § 3661, the Postal Service's studies fall short of justifying the change.

²⁶ We have shown above that no such necessity really exists. See Section II.A., above.

The Postal Service focused its evaluative efforts solely on the effects of ending overnight delivery for all Single-Piece and much Presort First-Class Mail and for Periodicals. The circumstances under which this change is being presented, however, virtually dictate a broader approach.

First, neither the Postal Service nor any participant would deny that its flagship product, First-Class Mail, is in a (probably permanent) decline. The Service has long relied on First Class for a predominant share of its institutional cost recovery.²⁷ Its dire financial condition is common knowledge. An appropriate goal, therefore, would be to arrest or at least retard the departure of First-Class Mail volume from the system.

It is especially important, in this context, that the *permanent*²⁸ loss of First-Class volume is largely due to electronic diversion. For many applications, both Single-Piece and Presort users have a viable and, in some respects, superior alternative to hard-copy mail. The most likely question for them is not merely how much First-Class Mail they will send, but whether they will send any. These customers, and perhaps especially users of Single-Piece First-Class Mail, are not likely to consider individual service reductions, one at a time, when making those decisions. Their perceptions of the overall direction of First-Class Mail, as embodied in a series of Postal Service management initiatives, will be equally if not more important.

In recent years, the Service has –

- Launched an initiative (now being debated in Congress) to end Saturday delivery and carrier pickup (Docket No. N2010-1);

²⁷ USPS-T-2 (Masse), pp. 4-5.

²⁸ As opposed to the possibly transient or reversible effects of the 2008-09 recession.

- Announced a program looking to close many of the 4,800 retail branches and stations (Docket No. N2009-1);
- Has begun, and subsequently modified, a program of closing several thousand smaller retail post offices (Docket No. N2011-1);
- Supplemented or replaced this initiative with a scheme to reduce retail office hours of service (Docket No. N2012-2); and
- Over the years, removed thousands of street letter boxes²⁹, making access through retail offices and carrier pickup more necessary at the same time it was proposing to shrink those channels.

Revenue lost because a customer leaves the system for service-related reasons³⁰ is lost, whether the customer's departure was triggered by the most recent service reduction or by the cumulative effect of several such changes. Since, as Mr. Masse's testimony makes clear, the ultimate goal is to improve the Postal Service's financial position, this fact should have been recognized.

Instead of acknowledging that the present service change is one of a series, all with the same tendency to discourage customers³¹, the Postal Service took pains to estimate *only* those volume and revenue effects ascribable to the end of overnight delivery and to nothing else.³²

²⁹ See PRC Op. N2009-1, pp. 67-68.

³⁰ Service changes and prices are, of course, not independent of one another. See generally PR-T-1 (Neels); Tr. 10/3226 et seq. We are simplifying here, for the sake of clarity.

³¹ The question is complicated further by the Postal Service's legislative proposal to increase (some) First-Class rates beyond price-cap levels, and by the extensive press coverage this and other service reduction initiatives have received. These factors would also tend to depress First-Class volume and revenue.

³² See USPS-T12 (Whiteman), pp. 19-21; see also witness Elmore-Yalch's response to GCA/USPS-T11-1; Tr. 3/502.

The "all sources" opinion research. A characteristic source of debate in the Postal Service's analysis of the impact of proposed service changes is the way in which the triggering event is described for participants and respondents in its opinion research.³³ In this case, the Postal Service began its effort by asking respondents to estimate their reaction, in mailing terms, to a description of changes in First-Class Mail service. The changes were outlined in a "First Class Mail Change Statement" listing, besides the end of overnight delivery and changes to other First-Class standards, the proposed elimination of Saturday delivery and the closing of "many small post offices." (Also mentioned were Postal Service efforts to have Congress reform its pension and health care prepayment obligations.) Questions as to future mail usage took the general form

Assuming that the changes to First-Class Mail had been in place during the past 12 months, what is the likelihood that this change would have caused your organization to **modify the number of individual pieces of mail sent by any means?** [³⁴]

In every question, effectiveness of "the changes to First-Class Mail" was the premise the respondent was asked to assume. There were no questions asking respondents to break out the specific effect of the loss of overnight delivery.

The answers³⁵ pointed to a major decline. Single-Piece First-Class volume would have declined by 3.252 billion pieces; Presort by 3.806 billion. Net revenue loss would have been \$751 million and \$868 million, respectively. Every

³³ The problem surfaced in Docket No. N2010-1 in the shape of a misleading choice put before opinion research participants. They were asked whether they preferred an end to Saturday delivery or a hypothetical (and disproportionately large) rate increase. Perhaps unsurprisingly, most preferred the service change – but, as we pointed out, the Service was contemporaneously planning both steps. For discussion, see Docket N2010-1, Initial Brief of the Greeting Card Association, pp. 19 et seq.

³⁴ USPS Network Optimization and First-Class Mail Small and Home-Based Business Questionnaire – Final – August 10, 2011, p. 12, Q3 (emphasis in original). The "First Class Mail Change Statement" appears at p. 11. All this material is contained in Postal Service Library Reference LR-70.

³⁵ APWU-XE-1, Tr. 4/905-906.

class studied would have experienced a volume decline, and all but Periodicals (whose contribution is negative) a corresponding net revenue loss. The service changes would, in total, have cost the Postal Service \$1,963 million in contribution. Table 1, taken from the Detailed Analysis, presents the overall results in the "Combined" column (the "In Isolation" column refers to the narrow-focus study, described next).

Table 1

<u>Product</u>	<u>Volume Changed Due to Service</u>		<u>Net Revenue Change</u>	
	<u>In Isolation</u>	<u>Combined</u>	<u>In Isolation</u>	<u>Combined</u>
<i>FCM SP</i>	-871.3	-3,251.6	-\$201.3	-\$751.1
<i>FCM Presort</i>	-645.6	-3,806.4	-\$147.2	-\$867.9
Total FCM	-1,517.0	-7,058.0	-\$348.5	-\$1,619.0
Total Standard	-1,164.6	-4,373.8	-\$78.0	-\$293.0
Total Periodicals	-155.9	-1,432.1	+\$13.3	+\$121.7
Priority/Express	-44.4	-122.7	-\$85.4	-\$173.0
TOTAL ³⁶	-2,881.8	-12,986.5	-\$498.6	-\$1,963.3

The Service's second try. Dissatisfied with this result, because it failed to focus exclusively on the end of overnight delivery, the Service discontinued this "all-sources" effort and replaced it with a narrower one. The description of changes in service now discussed – very fully – the proposed elimination of overnight service standards, but nothing else. There was no reference to ending Saturday delivery, closing post offices, or possible legislative easing of the Service's obligations to prepay pension and health costs.³⁷

The quantitative questions which followed took the general form

³⁶ The Totals of course reflect only the lines in roman typeface (i.e., excluding the breakdown of First-Class Mail by product, shown in italics).

³⁷ USPS-T-11, Appendix F, p. 100 (Elmore-Yalch). This statement was provided to Large Commercial Account respondents; similar statements were read to other respondent categories.

What is the likelihood that the First-Class Mail service standards that I have just described will cause your organization to **modify the number of individual pieces of mail your organization will mail in 2012?** [³⁸]

Thus the respondent was directed to focus only on the service change now before the Commission. The researchers took a further step to narrow the focus, however; after a series of quantitative questions covering various applications, they asked respondents

. . . What percentage of this [DECREASE / INCREASE] is solely because of the First-Class Mail service standards that I described?

These answers were an input to the formula the Postal Service used to estimate the revenue lost *from that service change alone*.³⁹ (In section IV.A., below, we describe how this formula worked. The questionable nature of the formula itself is discussed in section III.B. of the Detailed Analysis in connection with the testimony of NALC witness Crew.)

The change in customer reaction was striking. Declines in First-Class volume now amounted to only 871 million pieces (Single-Piece) and 646 million (Presort). First-Class contribution loss fell to \$349 million. While the all-sources investigation had yielded a total net revenue loss of \$1,963 million⁴⁰, the narrower-focus research finally relied on by the Postal Service produced a corresponding figure of \$498 million.⁴¹ We recognize, of course, that it would be a mistake to compare the all-sources loss with the savings specific to the MPNR and what was said to be a necessarily associated service change.⁴² The point is that the

³⁸ USPS-T11, Appendix F, p. 100 (emphasis in original).

³⁹ The procedure is explained by witnesses Elmore-Yalch (USPS-T11, pp. 48-49) and Whiteman (USPS-T12, p. 20).

⁴⁰ Tr. 4/906 (APWU Exh. XE-1).

⁴¹ USPS-T12, p. 22 (Chart 1).

⁴² An appropriate comparison is still of some interest. Postal Service witness Bradley filed supplemental testimony taking account of the final determinations (as of February 23, 2012) on closings and consolidations. His new total saving is \$2,061 million. USPS-ST4, p. 16 (Table 11).

cumulative effect of recent service changes has had a substantial impact on the public's willingness to use the mails. The narrow-focus research is useful as an indication of *how much worse* ending overnight delivery could make the problem – but, at the same time, potentially misleading in that it ignores all the elements of the problem *except* the end of overnight service.

Acknowledging that both the all-sources and the narrow-focus investigations could have (different kinds of) practical value⁴³, we nevertheless submit that for the Commission's purposes the cumulative effects revealed by the broader inquiry must be taken into account. Under § 3661, the Commission's focus is necessarily on the service change. The ultimate question is whether it would conform to the policies of the Act. Thus, for example, the Commission must ask, and decide, whether the service change would so gravely compromise the Service's ability to provide adequate and efficient postal services (§ 403(a)) that the cost savings said to entail it are not worth the loss. For these purposes, this service reduction needs to be viewed in the context of other recent changes affecting the same user group(s), and their overall effect estimated. The strong suggestion conveyed by the all-sources research is that this series of changes has already undermined public confidence in the adequacy of mail service, with the evident result of reducing volume, and – since in First Class, at least, the reductions will correspond to increased use of e-media – reducing it permanently.

Subtracting the \$498 million loss indicated by the narrow-focus market research yields a net saving of \$1,563 million in place of the \$2,076 million first presented in the Postal Service filing. This simple calculation takes no account of technical problems affecting the savings estimate; some of these are discussed below in section IV.

⁴³ We were, for example, able to make use of the results of the narrower-focus research above, at p. 7. In addition, the ending of overnight delivery, all by itself, is predicted to cost the Postal Service more than 1.5 billion pieces of First-Class Mail (871 million Single-Piece; 646 million Pre-sort); this fact might suggest that Postal Service surrebuttal witness McCrery's confidence that "customers for whom speed is the critical concern have long since relied on shipping and mailing alternatives other than First-Class Mail" is misplaced. See section III.C. of the Detailed Analysis for further discussion of this issue.

There is further discussion of some aspects of this problem in the Detailed Analysis.

B. The Postal Service's network design exercise was inherently biased

In the preceding discussion, where our purpose was to suggest that the Commission view the recent series of service reductions more broadly than the Postal Service chose to do, we left unchallenged the proposition that significant reductions in mail processing redundancy entail the end of overnight delivery. This was an oversimplification, albeit a convenient one. In fact, this supposed entailment is largely an artifact of the restrictive fashion in which the Postal Service conducted its analysis. It excluded from its optimization exercise the possibility of system realignments consistent with retaining at least some, and perhaps all, overnight delivery. That such realignments are possible has now been established through independent analyses presented by the Public Representative and by the Commission's expert witnesses. See section II.A., above.

The Postal Service artificially restricted the scope of its analysis – (1) the preliminary study. The Postal Service began its inquiry with a “high level” modeling exercise.⁴⁴ Postal Service witness Williams described it thus:

. . . The analysis performed suggested the savings potential from maintaining some level of overnight service standards, with some relaxation of overnight relationships was not as great as the proposed change, and based on the financial condition of the Postal Service, as well as the forecasts related to First-Class Mail volumes, the organization determined to more fully evaluate the potential opportunity based on the proposed network laid out in this docket.^[45]

⁴⁴ Library Reference USPS-LR-N2012-1/47, Preface. The study did not consider specific plants or distance constraints.

⁴⁵ Response to GCA/USPS-T1-1, Tr. 2/137 et seq.

Almost from the outset, therefore, the Service's analysis was shaped by the perceived size of potential cost savings.⁴⁶

The Postal Service usefully supplemented this answer with Library Reference N2012-1/47. The study examined three scenarios: extension of the relevant processing window by 1, 2, and 6.5 hours. The potential savings, labeled "Opportunity" in the Excel spreadsheet constituting the substance of LR-N2012-1/47, were about \$1.5 billion, \$1.8 billion, and \$2.8 billion for the three scenarios. (In this connection, it is worth noting that Mr. Matz, in describing how overnight delivery could be retained for intra-SCF mail, testified that the DPS window could be practically doubled by doing so.)

The Postal Service artificially restricted the scope of its analysis – (2) the optimization exercise. As Mr. Williams points out in the response cited above, this preliminary analysis is not the one presented here by witness Rosenberg and relied on by other Postal Service witnesses. Her analysis was explicitly based on the elimination of overnight delivery.

As the manager of the modeling exercises underpinning the present proposal, Ms. Rosenberg has confirmed this fact. Asked⁴⁷ whether her work yielded the elimination of overnight delivery as a result or "took [it] as a given then worked to determine a possible new network flowing from that that maximized potential savings," she responded that

My work determined the network that could be created *based on the service standard changes described by witness Williams*. My work recognized that the constraint within the mail processing network was the overnight delivery of First-Class Mail (FCM), and my work realized that the

⁴⁶ Considered, admittedly, in light of forecasted declines in First-Class volume. The possibility of a feedback effect from the service change – that is, an *accelerated* drop in First-Class volume – seems not to have been taken into account. Mr. Williams's answer quoted above does not elaborate on any relationship between the three scenarios and an end to overnight delivery.

⁴⁷ See responses to GCA/USPS-T3-2, Tr. 4/1298-1299.

modification of the FCM service standard could lead to significant consolidation opportunities as detailed throughout this docket. [*Italics added.*]

In answering GCA/USPS-T3-7(b), Ms. Rosenberg stated that “the assumption to have no overnight was decided prior to modeling.”⁴⁸

This restriction was not imposed by the nature of the modeling software. Ms. Rosenberg explained that the scoring tool could be run “with no additional service days.”⁴⁹ The same was true of the LogicNet program. The Postal Service did not attempt to do this, but Dr. Raghavan did, with the results we have described above (pp. 6-9).

If the Commission had no technical analysis before it other than Ms. Rosenberg's work, it would still have to face the difficulty that this work was premised on – rather than yielding as a result – the elimination of overnight delivery. Because the Commission's primary interest is in evaluating that proposed service change⁵⁰, it would still be risky (to put it no more strongly) to recommend it favorably on the basis of analytical work which, however skillfully done in detail, still incorporated its conclusion as one of its premises. Under those circumstances, it would still be logically possible, if highly uncertain, that a (financially) satisfactory realignment of the processing network would entail ending overnight delivery.⁵¹ The record as a whole, however, now shows that that is not the case.

⁴⁸ Tr. 4/1301. This question concerned the assignment of two- and three-day standards among ZIP code pairs. Ms. Rosenberg further confirmed on cross examination that the decision to eliminate overnight service preceded the modeling. Id., 1455-1456.

⁴⁹ Response to GCA/USPS-T3-2(c), Tr. 4/1298-1299.

⁵⁰ That is: the Commission, under § 3661, is to see that the service change conforms to the policies of title 39. The quantum of associated savings, while important, is not its central evaluative task.

⁵¹ It might be argued, perhaps, that it was appropriate for the Postal Service to seek realignment savings which were not merely large but actually maximal. First, though, even if the Service had proved that the savings from ending overnight delivery exceeded those which could be gained from any other type of realignment, the Commission would still be obliged to weigh them against the degradation of service they entailed. Furthermore, in light of what the record now shows regarding the possibility of large network savings with no change in service standards (and hence

C. Summary

The Postal Service's analytical design thus suffers from two major flaws; either one, we submit, would make it impossible for the Commission to recommend the elimination of overnight delivery. Its analysis of the impact of the change fails to place it in the context of all the other service reductions experienced by, or threatening, mail users over the past few years. The simulation work leading to the actual rationalized network design was inherently biased, in that the elimination of overnight delivery was built into it as a premise, rather than being allowed to emerge as a possible finding. Especially in light of the showings made by Dr. Raghavan and Messrs. Matz and Weed, the Commission cannot responsibly rely on it.

IV. Technical problems in the Postal Service analysis

In this section, we deal briefly with some technical problems in the Postal Service's analytical design, less sweepingly disqualifying than the biases just described, but still troubling. Additional problems not covered here are discussed in the Detailed Analysis.

A. Cost side/benefit side imbalance in the Postal Service's analysis

Introduction. In any study which seeks to compare the costs and benefits of a given action, it is elementary that both sides of the comparison should rest on the same basis. There may be room for debate about what that basis should be, but any material differences between the basis chosen for the cost side and

no volume or net revenue loss), it is far from clear that the savings estimated by the Service are indeed maximal, at least on a net basis. Finally, the results of the AMP program demonstrate that the savings initially calculated, and presented by Dr. Bradley, were in fact a highly theoretical figure, considerably greater than the savings now in prospect.

that chosen for the benefit side will insure that the resulting “comparison” is invalid.

The Postal Service’s analysis in this Docket exhibits this defect. Briefly: the benefit (savings) side of the comparison counts cost-reduction initiatives which were not part of the MPNR plan and which did not entail an end to overnight delivery, while on the cost (lost volume and revenue) side the Service insisted on limiting the inquiry to the effects of the MPNR and its associated service reduction, and nothing else.⁵²

APWU witness Kobe’s analysis of the “non-MPNR” cost-reduction initiatives. APWU witness Kobe⁵³ has studied the plant closings and consolidations which were not part of the MPNR effort. Ms. Kobe summarizes her conclusions in this way:

However, as indicated in the Processing Facility “Fact Sheet,” the Postal Service reduced the number of processing facilities by 23 percent between 2009 and 2011. That reduction includes facilities that Dr. Bradley and Mr. Smith are using in their analyses. Furthermore, in the AMP process it was determined that those facilities could be closed or consolidated and the network would remain robust enough to meet the old service standards. Until this initiative began, the AMPs were being tested against meeting the old service standards, not the new standards made necessary by this initiative. Therefore, any savings resulting from the facilities in the network that were shut down due to AMPs conducted prior to the beginning of this initiative are not properly counted as savings resulting from this initiative, with its associated reduction of service standards.⁵⁴

⁵² See the discussion in section III, above, and USPS-T-11 (Elmore-Yalch) and USPS-T-12 (Whiteman). Preliminary results of the “all-sources” effort, which was discontinued in favor of the research presented by these two witnesses, are shown in APWU Exh. XE-1 (Tr. 4/905-906) and discussed above at pp. 16-17.

⁵³ APWU-RT-1 (Revised), pp. 8 et seq. and Table 1; see Tr. 11/3701 et seq. We have quoted and cited Ms. Kobe’s revised testimony as filed, since the Transcript posted on the Commission’s website (as of July 9, 2012) omitted relevant pages of that document.

⁵⁴ *Id.*, pp. 8-9 (fn. omitted), and see Table 1.

Ms. Kobe goes on to list a substantial number of facilities, approved for closure or consolidation on the assumption that the old service standards would remain operative, and argues that they should not be counted as savings from the MPNR and its associated service reduction.

This position seems clearly correct. Once again, the distinction between the MPNR and the service change supposedly entailed by it is crucial. The Commission is being asked to assess not just a network rationalization plan, but a plan which, as the Postal Service presents it, requires major sectors of the mailing public to be deprived of overnight delivery. It is the service change, and not the complex of closings and consolidations, which brings the entire matter before the Commission under § 3661. To ask the Commission to accept, as justifying the service reduction, cost savings which could be (and in some cases, so far as we know, have been⁵⁵) achieved without a change in service standards is plainly not reasonable. That, however, is what the Postal Service appears to advocate.

Apples and oranges. Postal Service witnesses have made it clear that the goal of the opinion research was to identify the losses in volume and revenue to be expected *solely* as a result of the MPNR-related service change.

This emerges clearly from the design of the quantitative research questions. For example, respondents in business organizations, reprinted at Appendix F of witness Elmore-Yalch's testimony (USPS-T11) were asked first, for example, "How many **general communications** do you anticipate **mailing** (AS NEEDED: using the U.S. Postal Service) in 2012 under the First-Class Mail service standards that I have described?"⁵⁶ Similar questions covered other uses of the mail. Next, the respondents were asked

⁵⁵ For example, Ms. Kobe's table lists two facilities which were closed in FY 2010. If these closings produced any savings, one would expect them to be known and in the bank by now.

⁵⁶ Q8A, USPS-T11, Appendix F, p. 104.

You indicated that based on the First-Class Mail service standards I described the total number of **general communications** you would **mail using the U.S. Postal Service** in 2012 would [DECREASE/INCREASE] by [RESTORE DIFFERENCE_COMMUNICATION] pieces. What percentage of this [DECREASE/INCREASE] is solely because of the First-Class Mail service standards that I described?^{57]}

This, again, was one of a range of similar questions concerning various uses of the mail. At pp. 48-49 of USPS-T11, Ms. Elmore-Yalch explains how this information was used. If a respondent estimated that (i) his/her organization's First-Class mailings would total 100,000 pieces under current service standards, but 90,000 under the proposed standards, (ii) that 50 percent of the change was "solely attributable" to the standards change, and (iii) that some change was 50 percent likely, the Service calculated that organization's volume as affected solely by the change in standards as $(100,000 - 90,000 = 10,000) * (0.50 * 0.50) = (10,000 - 2,500) = 97,500$. Mr. Whiteman provides a similar example.⁵⁸

It is possible that opinion research restricted in this way could produce relevant information. As we explain elsewhere, we believe this narrow focus is poorly adapted to the ultimate goal of this and other Postal Service initiatives: restoration of financial stability.⁵⁹ Our present point, however, is that a causally over-inclusive analysis of cost savings cannot rationally be coupled with a narrowly-restricted estimate of associated revenue losses. Even if it were legitimate to include in the savings estimates the benefits from closings and consolidations which did not entail reduction in service standards – a proposition GCA would reject in the context of this service-change case – it is a serious mistake to combine such a savings estimate with a cost (revenue loss) estimate reflecting *only* the results of the service reduction. An overstatement of net savings necessarily follows from such a combination.

⁵⁷ Q12COMMUNICATION, id., p. 110.

⁵⁸ USPS-T12, p. 20.

⁵⁹ Section III.A., above.

Is the inconsistency a serious issue? It is not clear whether the record in this case would permit the Commission to quantify the effects of this error. Ms. Kobe acknowledges that the identity of the facilities properly included in the MPNR analysis is somewhat unsettled, and the Postal Service's subsequent announcement of a closings timetable has clouded the issue further.⁶⁰ What is clear is that the comparison as presented by the Service is methodologically indefensible, and that the resulting prediction of (originally) a \$2 billion net saving is almost certainly an overestimate.

That said, it is still possible to gain some notion of how serious an effect this inconsistency could have. Witness Kobe's Table 1, referred to earlier, lists 26 facilities, included in the Postal Service's savings estimates, as to which closure decisions had already been undertaken or made. Since her testimony was filed, the record has been supplemented with final AMP results. Postal Service Library Reference LR-82 lists facilities designated for closing or consolidation, on the basis of AMP decisions as of February 23, 2012. Of Ms. Kobe's 26 facilities, 24 will not be nodes in the optimized network.⁶¹ LR-82 lists 392 facilities, of which 175 will not figure in the reorganized system. Thus of the total closures shown in the Library Reference, 13.7 percent⁶² were decided upon under the previous service standard and, as Ms. Kobe points out, should not be counted in the estimate of savings from the change in standards.⁶³

⁶⁰ See also the discussion at Tr. 11/3732-3733.

⁶¹ One, the Lincoln P&DF, is shown as a "Y" – indicating it will have a place in the optimized system. Another, identified as "Zanesville, OH," does not appear in LR-82.

⁶² $24/175 = 0.13714$.

⁶³ Because in this discussion we have focused only on the *number* of facilities involved, and not attempted to quantify the affected savings in dollar terms or otherwise, Postal Service surrebuttal witness Smith's criticisms of Ms. Kobe's analysis are not on point. He objects to her use of a total 2009-2011 processing facility reduction figure, and of MODS hours from her Table 1, neither of which is part of our discussion. See USPS-SRT-2, pp. 1-3.

B. Testing of the Postal Service's scoring tool produced anomalous results

An integral part of the Postal Service's analytical process, as explained by Ms. Rosenberg, was the Excel scoring tool. This program, which Ms. Rosenberg described as a "giant calculator," assessed various operating windows on the basis of an assumed extra 24 hours made available by eliminating overnight delivery.⁶⁴ In each scenario tested, it provided time windows for cancellation, outgoing primary sortation, incoming primary sortation, and DPS (both passes). The scenarios were then scored using (hypothetical) costs, so that they could be compared.

The scoring tool, therefore, could be roughly described as analyzing the existing state of affairs modified only by elimination of the overnight standard and the concomitant addition of 24 hours to the time available for the various operational steps (including transportation).

Focusing on this characteristic, Dr. Raghavan set out to test how well the scoring tool would reproduce the existing system using current operating windows and retaining the overnight standard:

It is reasonable to make a large number of approximations or simplifying assumptions in building a model for strategic purposes. However, it is important that such approximations or simplifying assumptions do not take the model too far from the problem it is trying to solve to the extent that there are questions about the results of the model. In simple terms, any model that is used for planning purposes should be tested in some form, if possible, to confirm its validity. To this end, I tested the Excel scoring tool by using the current service standard and operating windows. If the Excel scoring tool's calculations are reasonable, then it should provide a number of facilities in the ballpark of the current number of mail processing facilities.^{65]}

⁶⁴ USPS-T-3, pp. 5 et seq.

⁶⁵ PR-T-2, p. 8; Tr. 10/3109. In the preceding paragraphs, Dr. Raghavan summarized the approximations and simplifying assumptions built into the scoring tool.

The results of this test were disquieting. It produced three feasible scenarios, which required, respectively, 715, 878, and 928 plants to process current volumes under current conditions. Postal Service witness Neri states that there are 487 plants, and Ms. Rosenberg's LogicNet exercise uses 476. Dr. Raghavan ascribed this astonishing disparity largely, if not entirely, to the scoring tool's assumption of nationally standardized mail processing practices and a uniform national distribution of workload; in his view, the scoring tool assessed a representative plant in isolation and arrived at total costs by "multiplying the single facility costs by the number of (identical) facilities required."⁶⁶ He has shown that the Commission should treat it, and its results, with "significant skepticism."⁶⁷

V. DOES THE PROPOSED SERVICE CHANGE CONFORM TO 39 U.S.C. § 404(c)?

Section 3661 requires the Commission to determine whether the proposed change in service "conform[s] to the policies established under this title." One such policy is the requirement, now located in 39 U.S.C. § 404(c) but dating back to Reorganization⁶⁸, is that there be at least one class for letters sealed against inspection and, particularly, that –

. . . One such class shall provide for the most expeditious handling and transportation afforded mail matter by the Postal Service. . . .

This sentence raises a significant issue in the present case because the Postal Service apparently proposes a set of service standards offering overnight delivery to Presort First-Class Mail tendered before certain critical entry times, but to no Single-Piece mail at all. (The change, strictly speaking, is to a Postal Service

⁶⁶ Id., pp. 7-8.

⁶⁷ Id., p. 12; Tr. 10/3113.

⁶⁸ Former § 3623(d) was re-enacted, unchanged, in PAEA (Pub. L. 109-435). The Commission long ago made clear that it should be understood to refer to First-Class Mail, even though Express Mail (for example) arguably offers more expeditious treatment.

business rule rather than a service standard in the technical sense, but for purposes of § 404(c) the distinction is immaterial.) The Service's Request initiating this case does not assert that its proposal conforms to § 404(c), and indeed does not refer to that provision.

The question, in its most general form, thus becomes “Can the Postal Service lawfully subdivide the ‘[o]ne such class’ referred to in the above-quoted sentence so that one part of it does receive ‘the most expeditious handling and transportation’ while the other does not?” The sentence in question includes several expressions which could be construed in more than one way. The best procedure seems to be to take them up one by one for individual interpretation.

A. “One such class”

The first issue is whether, by offering “the most expeditious handling and transportation” only to (some) Presort First-Class Mail, the Postal Service would no longer be providing “[o]ne such class” within the meaning of § 404(c).

As noted earlier, § 404(c) and its textually identical predecessor have always been taken to refer to First-Class Mail. In 1970, when this language was first enacted, no Single-Piece/Presort distinction existed. The Presort category was created in the original mail classification case, Docket MC73-1, and implemented in the form of rate discounts some time later.⁶⁹ Thus the phrase in question must have referred to First-Class Mail as a whole.

It is also worth noting that when PAEA was enacted in 2006, the classes reflected in the then-current Domestic Mail Classification Schedule were “frozen,” for price-cap purposes, by new 39 U.S.C. § 3622(d)(2)(A). Since former § 3623(d) was simultaneously re-enacted without change, one may at least conclude that the meaning of “class of mail” received Congressional attention in

⁶⁹ See PRC Op. R76-1, Appendix A, Schedule A-1 (June 30, 1976).

2006, and that Congress saw no need to change it in connection with the requirement now being considered.

The better conclusion therefore seems to be that a “class of mail” cannot, under § 404(c), be subdivided in such fashion that only one part of it receives the most expeditious handling and transportation. It is true that Single-Piece and Presort are now separate *products*, but it is equally true (and much more relevant) that the “product” concept did not appear in the 1970 Act and so has no role in the administration of § 404(c).

B. “Shall provide for”

The next issue appears to be the meaning of “shall provide for” – specifically, whether it requires that the class – which we saw above must be treated as an indivisible unit – (1) must afford all mail falling within it “most expeditious” treatment, or (2) can lawfully afford such treatment to only certain components, on the ground that “provide for” need not be taken as a global requirement.

It is important to bear in mind that § 404(c) calls for the *class* to “provide for” the most expeditious treatment. It does not direct the Postal Service (with or without the Commission’s acquiescence) to “provide for” such treatment – a reading which would arguably allow distinctions as to expeditiousness within the class. “Most expeditious treatment,” in other words, is part of the definition of the class; and the class is itself not a divisible unit.

On the other side, it could be argued that to “provide *for*” a particular form of service for a mail class does not necessarily mean that it must be provided *to* every member of the class. On this view, to “provide for” most expeditious handling could require no more than that the Service be prepared to furnish it to some subunit of the class (defined, perhaps, by ease of handling or ability of the

mailer to perform some time-consuming functions otherwise incumbent on the Service).⁷⁰

While linguistic arguments could be made on both sides of this question, the real answer may emerge from consideration of what such subdivision of a § 404(c) class might imply as possible in practice. The first sentence of §404(c) requires the Postal Service to maintain “one or more classes of mail for the transmission of letters sealed against inspection.” If “class,” as used in that section, is interpreted to allow intra-class distinctions, it would then be possible to subject some First-Class letters to inspection, despite the evident intent of the sentence. The next sentence calls for uniform rates for the “class.” Intra-class divisibility, again, would raise the possibility of one set of rates for, e.g., “Central Business District Letters,” another for “Suburban Letters,” a third for “Rural Letters,” and so on – again, facially inconsistent with what § 404(c) is meant to insure. A single term such as “class” should obviously be given the same meaning throughout a statutory section (particularly one which was enacted as a unit and has not been amended, despite a thorough overhaul of the basic statute after 36 years of experience with the original version).

Considering § 404(c) as a whole, and giving “class” the same meaning throughout it, it appears that the better interpretation would forbid the subdividing of the class in order to provide “most expeditious” handling and transportation to only some of the mail in it.

⁷⁰ That the subset of mail eligible for the most expeditious treatment would be limited to Presort would, if this argument were fully accepted, be legally irrelevant.

What is not irrelevant, however, is that the denial to Single-Piece letters of a service standard according some of them overnight delivery results from the Postal Service’s own operational policies. Single-Piece users’ options for entering mail are limited to those the Service does not access until after the critical entry times it prescribes for overnight delivery of Presort mail. See response to GCA/USPS-T4-15; Tr. 5/1941 (Neri). Regardless of how early the Single-Piece customer deposits mail, it will not be collected and sent forward for processing in time to obtain overnight delivery.

C. “Handling and transportation”

Assuming, for argument’s sake, that both the statutory phrases considered so far forbid subdivision of the class so as to provide “most expeditious” treatment to only part of it, the next issue appears to be the proper construction of “most expeditious handling and transportation.” That is: does the omission of “delivery” from this phrase imply that not all of the class⁷¹ need be *delivered* with maximum expedition?

The evident common-sense answer to this question is that, since the desired end result is delivery of the mailpiece to the recipient, there would seem to be little point in expediting earlier stages in its treatment but not the final stage of delivery. Flying a First-Class letter from Arlington to Anaheim, at extra expense, and then leaving it to sit an extra day or more before delivering it would strike most as logistically unreasonable; and an interpretation of the statute which contemplated such a result should appear unreasonable too.

On the other side, it might be argued that in at least one place the statute seemingly does distinguish “handling” and “transportation” from “delivery.” Section 3622(e)(1) governs workshare discounts for “presorting, prebarcoding, handling, or transportation of mail.” Handling and transportation are, by and large, ordinary Postal Service functions, coordinate with delivery. This, it would be argued, tends to show that the phrase “handling and transportation” does not include delivery, since those two functions are here spoken of separately from delivery – which, indeed, could hardly be the subject of a workshare discount; and if the phrase “handling and transportation” excludes delivery in § 3622(e)(1), consistency requires that it do so in § 404(c) also.

⁷¹ Or, for that matter, none of it. The phrase under consideration here bears no relation to possible subdivision of the class; the issue is simply whether – *with respect to any mail in the class* – it governs “delivery” in the strictest sense along with “handling” and “transportation,” also narrowly defined. If it did not, there would appear to be no statutory reason for preserving an overnight standard for some Presort mail.

The short, and probably sufficient, answer to this is that § 3622(e)(1) did not exist until 2006, and so is no help in construing language enacted in 1970, and re-enacted without change in the same legislation that created § 3622(e)(1). A more substantive response is that the sole purpose of § 3622(e) is to set ground rules for discounts provided to mailers who perform worksharing. “Delivery,” therefore, is not included in the “handling [and] transportation” concept as used in § 3622(e)(1), because mailer performance of the delivery function would not be worksharing; it would take the delivered material out of the postal system altogether. “Handling [and] transportation” therefore may quite well have a narrower meaning there than in § 404(c); and indeed, if both provisions are to make sense, it must.

It is also worth pointing out that at least one of the problematic terms is used elsewhere in the statute as *part of* the concept of “delivery.” Section 102(5) defines “postal service” as “the *delivery* of letters, printed matter, or mailable packages, including acceptance, collection, sorting, *transportation*, or other functions ancillary thereto[.]” (Italics added.) This appears to make “transportation,” and perhaps “handling” too⁷², *part of* the concept of “delivery.” Section 102(5) is much broader in scope than § 3622(e)(1), so that if either of these later-enacted provisions were resorted to in construing § 404(c)⁷³, it would be clearly the one to use.

D. Conclusion

The expressions used in the critical sentence of § 404(c) are, admittedly, subject to differing interpretations. Reading that section as a whole, however, and considering not just the words on the page but also the practical consequences of the different possible constructions, the better view appears to be that

⁷² “Handling” could plausibly be taken as shorthand for acceptance, collection, and sorting taken together.

⁷³ As will be clear from our discussion above, neither should be.

an arrangement whereby a service standard providing overnight delivery for some Presort First-Class Mail, but excluding Single-Piece, would be inconsistent with § 404(c).⁷⁴

VI. SUMMARY AND CONCLUSIONS

GCA believes that the Commission's inquiry must start from, and adhere to, the distinction between the Mail Processing Network Rationalization plan, considered strictly as a cost-saving initiative, and the ending of overnight delivery. The Commission's task under § 3661 is to evaluate the proposed change in the nature of service. As an abstract matter, the cost-related reasons put forward to justify the change are important – but there must be a real and inescapable causal connection between the expected savings and the degradation of service.

The record in this case shows that there is not. Alternatives which preserved all or a substantial fraction of overnight delivery were in fact available to the Postal Service. Not only did it not consider them; by the way in which it carried out its analysis it actually disabled itself from doing so. That these alternatives were not pursued, and that it is not possible, on this record, to produce precise⁷⁵ savings estimates for them, as the Postal Service has sought to do for its proposal, does not leave the Commission helpless to make use of them. Section 3661 does not require the Commission to approve the Postal Service's proposal merely because savings from the alternatives that preserve overnight delivery cannot be more than roughly quantified. That is a step the Postal Service should

⁷⁴ It might be asked why GCA is discussing this question, since our position throughout has been that the Postal Service can effectively rationalize its processing system without wholesale change – indeed, without any change – to First-Class service standards. We raise it because the proposed availability of overnight delivery for some portion of Presort could be taken as lessening the overall impact of the service change. Any consideration by the Commission of how damaging this overall impact would be thus has to take into account the possibility that this supposed alleviation for the benefit of Presort is not legally available.

⁷⁵ "Precise," but not necessarily accurate, as our discussion in section IV and the Detailed Analysis shows.

have taken before settling on a plan to present to the Commission – or, more correctly, deciding that no service change and hence no § 3661 filing would be needed.

It is also highly important that a network rationalization preserving overnight delivery would negate the half-billion-dollar net revenue loss the Postal Service calculated for its own plan. The care it took in its market research to isolate the volume and revenue losses from the overnight service change alone means that this loss can be precisely (if, again, not necessarily accurately) quantified. GCA believes that actual losses would probably be larger, since the loss of overnight service might strike some users as "the last straw" even if they gave comparatively little weight to that change taken alone.

Finally, the Single-Piece/Presort disparity in service – overnight delivery being provided for some Presort mail but no Single-Piece mail – raises a significant legal question under 39 U.S.C. § 404(c). In GCA's view, that provision probably forbids any such disparity, for reasons explained in section V. The question must be considered in any event, however, if the Commission is to assess accurately the level of service that would be provided to First-Class Mail if the proposed changes were put into effect.

None of these arguments, however, qualify or diminish GCA's long-standing support for a thorough streamlining of the mail processing network. That is a job the Postal Service needs to do, and do soon. That said, GCA does believe that the ending of overnight delivery is in no way a necessary consequence of an effective network rationalization program. We therefore urge the Commission to recommend against the harmful and unnecessary service change proposed in this Docket.

July 10, 2012

Respectfully submitted,

GREETING CARD ASSOCIATION

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DETAILED ANALYSIS

INITIAL BRIEF OF THE GREETING CARD ASSOCIATION Docket No. N2012-1

I. Introduction and Summary

On the surface, N2012-1 is a purely legal case, and the Commission has been asked by the Postal Service for an advisory opinion on its Notice(s) in the Federal Register.⁷⁶ However, the arguments used for the Postal Service's proposed change in service standards are almost purely economic ones. Much or most of the discovery in this case by intervenors has been based on economic inquiries.

GCA firmly believes that the reasoning justifying the proposed change in service standards (i.e. the elimination of overnight service for First-Class Mail (FCM) made by the Postal Service cannot stand up under analysis. As discovery and expert testimony in this case has now shown, the Postal Service can make large cuts in excess processing capacity, thereby materially reducing its operating deficits, without ending overnight delivery at all.⁷⁷ Indeed, while one expert's proposal, derived from running LogicNet software, cuts fewer plants than the USPS plan, it could reduce the deficit by more than the Postal Service's proposal does.

An important background consideration in this case is that the service standards proposal is consistent with what often appears to be a Postal Service policy of focusing on Standard mail going forward, rather than focusing on FCM.⁷⁸ Observers may credi-

⁷⁶ This case was filed by the Postal Service for an advisory opinion on its proposed change in service standards, the overriding aspect of which is to eliminate overnight delivery for First-Class Mail (FCM) and Periodicals. The reason for the change, according to the Postal Service, is to reduce its operating deficits by eliminating excess mail processing capacity due to the great recession and internet diversion. The Postal Service maintains that the only way to reduce its deficit by cutting excess processing capacity is to eliminate overnight service for First Class.

⁷⁷ Direct Testimony of Subramanian Raghavan on Behalf of the Public Representative, PR-T-2; Tr. 10/3100 et seq.

⁷⁸ USPS witness Williams states the matter bluntly in his testimony: "The Postal Service is not planning any changes to the Standard Mail service standard business rules in 39 C.F.R. 121.3 as a result of network rationalization." (USPS-T-1, p. 25, lines 8-9.) In response to GCA/USPS-7 (b)

bly wonder if, in the past few years, we have begun to see the crumbling – in practice, if not explicitly – of the universal service obligation as it affects the citizen mailer. .

The Postal Service’s own expert testimony was opaque and confusing, characterized by pervasive ambiguity as to whether ending overnight delivery of FCM was the outcome of network optimization computer runs using LogicNet, or, instead, a constraint imposed by Postal Service management on its expert, limiting her scoring tool and LogicNet options for network optimization to only those which ended overnight delivery. As described in the main body of this Brief, the latter turned out to be the case. It appears that the Postal Service designed its network rationalization studies with only a *financial* goal – maximal savings – in mind. The Commission, however, must focus on the rationale for and impacts of the *service* change.

II. The Postal Service Can Make Major Cuts in Mail Processing Plant and Equipment Without Changing Current Service Standards

A. Dr. Raghavan’s Testimony Running LogicNet Optimization Program Is Unrefuted

Technical problems in Postal Service analysis. The testimony of Dr. Subramanian Raghavan (PR-T-2) points out fatal weaknesses in the expert testimony of Emily Rosenberg, the Postal Service’s staff expert, who testified that if overnight delivery for FLCM were eliminated, the Postal Service could reduce plants to 199 from the current 487.⁷⁹

Ms. Rosenberg used a “scoring tool” that *assumed* an end to overnight delivery to evaluate feasible alternatives to the current mail processing network.⁸⁰ She used this

(i) and (ii), the Postal Service stated: “Annual First Class Mail volume has declined to a point where it is now exceeded by Standard Mail and it is proposed that the vast difference between their respective service standards be diminished to a degree.”

⁷⁹ Ms. Rosenberg’s model uses 476 plants (USPS-T-3, p. 14). Optimizing the network assuming overnight delivery was eliminated leads to 199 plants (Id., p. 34).

⁸⁰ One of the striking aspects of the scoring tool was that a solution was deemed infeasible if only one FCM letter arrived late for mail processing. Technically, that is the current service standard for overnight FCM. A scoring model which changed a business rule (standard) for late arriving overnight mail would have produced feasible scoring tool scenarios that are more practical than

as the basis for modifications made to her scoring tool output based on meetings with local plant managers. Finally, she ran the results through an optimization model pioneered by IBM called “LogicNet”.

Dr. Raghavan’s testimony finds that Ms. Rosenberg’s scoring tool produces a “grossly inaccurate assessment of the number of facilities required to process the workload...” (See PR-T-2, p. 8). If one runs Rosenberg’s scoring tool using current service standards, it indicates that 928, 878, or 715 plants are needed (depending on minor variations in trip time, cancellation window time, and DPS processing time for the first and second pass) whereas only 487 plants today can process that workload. (PR-T-2, p. 11).

Ms. Rosenberg ignored plant to plant transportation costs, which are about as large as post office to plant transportation costs (\$1,047 versus \$865 million). In his view, had she included these, her model results would have provided a better starting point for discussions with domain experts. (See PR-T2, p. 14.) The mathematical analysis was not redone after the domain experts’ input was received. (See *id.*, p. 15.) Staging space for mail is going to increase significantly with the Postal Service’s proposal since mail is held for an extra day in a plant, and this problem worsens during peak load periods. (See *id.*, p. 21.)

Dr. Raghavan also concludes that inputs to Postal Service witness Bradley from witnesses Martin and Neri are flawed. Mr. Neri’s productivity improvements and Ms. Martin’s transportation costs are highly uncertain and lead to Bradley overestimating cost savings. (See PR-T2, p. 32).

Dr. Raghavan’s alternative solutions. Beyond his evaluation of witness Rosenberg’s scoring tool, Dr. Raghavan’s testimony focuses on alternatives to witness Rosenberg’s optimization results. He re-ran the LogicNet model using alternatives to the end of

the Postal Service’s change in service standards scenarios. For example, business standards could be changed so that FCM beyond a certain cutoff time would be processed later as second day mail, so that most overnight mail could be processed with wider windows for DPBCS first and second passes. This would not require a change in service standards. We say “most” overnight mail, because the testimony of Commission witness Matz indicates that the majority of at least Single-Piece FCM is intra-SCF and so has much less chance of arriving late. Mr. Matz, concluding that a much longer DPS window could be obtained by doing so, proposes that intra-SCF overnight mail remain so, while inter-SCF overnight mail becomes two-day mail.

overnight delivery. Specifically, he “asked” the LogicNet model to optimize the Postal Service’s network assuming current service standards remained in place.⁸¹ He found that major deficit reductions in plant and equipment could be achieved *without* ending overnight delivery or making other changes to current service standards.

The LogicNet model demonstrates that the Postal Service can cut between 210 and 248 of the current 476 plants without cutting service standards at all. With the proposed service cuts to FCM, the Postal Service estimates it can cut 288 plants. Why the Postal Service did not look at options such as those Dr. Raghavan examined, in any testimony it presented, remains unclear. The structure of its case suggests that reducing FCM service was, or became, the primary objective, rather than substantially cutting excess capacity in mail processing plant and equipment without degrading service.

The gross savings from the service standard changes proposed by the Postal Service are estimated to be \$2,574 million by USPS witness Bradley. However, ending overnight delivery especially will admittedly drive customers away from using postal services, and the lost revenue from that result is estimated to be \$498 million by Postal Service witness Whiteman (\$1,339.830 million in total lost revenue minus \$841.176 million in lower costs from less volume). The net savings from the service standard changes is \$2,076 million, according to the Postal Service, on lost volume of 2,881,799,338 mail pieces.⁸² Many believe the Postal Service’s estimate on volume losses is far too optimistic if overnight delivery is eliminated. Forty-one percent of all FCM is overnight letter mail.

It is true that the Postal Service’s proposal cuts between 11 and 40 more plants (between \$98 and \$357 million in gross savings, per the Service’s estimates) than could be cut by keeping service standards the same, according to Dr. Raghavan’s model output using LogicNet. However, one has to balance the extra savings from that against the

⁸¹ This is something the Postal Service itself should have done in its pre-filed case. It belatedly proffered a “high level” effort to do so in response to GCA/USPS-T1, when it filed LR-1/47.

⁸² For consistency with the testimony we are now discussing, we here use the Service’s original figures. The gross savings from the smaller-scale network realignment which emerged from the AMP process are, correspondingly, smaller as well. See Dr. Bradley’s USPS-ST-4. There is of course no change to be expected in the volume and revenue loss, since the proposed service change is the same in both cases.

fact there would be no volume and revenue losses associated with keeping service standards the same.

On average, the Postal Service's approach saves either \$8.937 million or \$9.292 million per plant closed, according to whether one starts with the 487 plants testified to by Mr. Neri or the 476 used by Ms. Rosenberg (and Dr. Raghavan). Accordingly – on the former assumption – Dr. Raghavan's testimony implies that savings from cutting capacity without any changes in current service standards would be between \$2,216 million and \$2,476 million.⁸³ Either of his models then saves more than the Postal Service's net savings of \$2,076 million.

It is also worth setting Dr. Raghavan's results alongside the Postal Service's recently-announced business rules for First Class.⁸⁴ The Service now intends to maintain overnight delivery for intra-SCF mail only from July 1, 2012 through January 31, 2014, or 19 months. After that, the service standard will become the one originally proposed in this Docket: no overnight service whatever for Single-Piece mail, and an overnight service undertaking only for Presort meeting specific preparation requirements and entered by 8 a.m. or, with further preparation, noon. A realignment using Dr. Raghavan's approach would, as shown above, save approximately the same amount in plant costs, would preserve overnight delivery for all First-Class categories, and, consequently, would avoid a half-billion-dollar loss in net revenue.

Dr. Raghavan's understanding of the analytic work as revealed in discovery responses. The Postal Service submitted 14 interrogatories to witness Raghavan on May 14, three weeks after his testimony was filed.⁸⁵ There were no follow-up interrogatories. The Service did not file surrebuttal evidence addressing Dr. Raghavan's analysis. Consequently, his testimony stands un rebutted. Nonetheless, some interesting points emerge from the most important of his discovery responses; they are discussed below.

⁸³ On the 476-plant basis, the Raghavan analysis shows savings of \$1,849 million or \$2,202 million – again, in one case, greater than the Postal Service's proposed savings.

⁸⁴ The final rule was published at 77 Fed. Reg. 31190 et seq. (May 25, 2012).

⁸⁵ They and his answers appear at Tr. 10/3153 et seq.

Dr. Raghavan's responses to some USPS interrogatories convey the impression that he understands the LogicNet model and witness Rosenberg's "scoring tool" better than the Postal Service does. For example, in response to USPS/PR-T2-2 (c), Dr. Raghavan had to correct the Postal Service's misunderstanding of how their own witness's scoring tool works. As he states: "The cancellation windows do not affect the calculation of the number of facilities in the scoring tool. They only affect the feasibility of a mail processing network using those windows."

As another example, in response to USPS/PR-T2-3 (b), Dr. Raghavan had to explain the Postal Service's own modeling using the LogicNet model. Contrary to what the Postal Service postulated in its interrogatory, Dr. Raghavan had to reply: "There are no Plant-to-Plant transportation links or costs in the Logic Net model."

The Postal Service also asserted that "the [LogicNet] model may have selected additional facilities that would have resulted in a higher facility count." Dr. Raghavan's response reflects not only that the Postal Service does not understand how the Logic Net model works for postal networks, it seemingly has to be reminded of some fundamentals of its own network: "Relaxing the distance constraints could only reduce the number of facilities."⁸⁶

In a similar vein, in USPS/PR-T2-7, Dr. Raghavan appears to have made better use of the data in the Postal Service's own library references the Service did. The Postal Service asked the witness for citations backing up his statement that cancellation volume could not be spread out evenly over the 7 hour operating window. His response was: "Please see USPS-LR-N2012-1/50, Sheet 1, Row 10, for data that indicates that cancellation volume is not smooth."

Obscure areas in the Postal Service analysis. Other responses by PR witness Raghavan illustrate a problem with the Postal Service's case we have also noted in this case.. The vagueness of significant areas in witness Rosenberg's testimony and supporting work is of such a degree that it has made it almost impossible to understand and test it for robustness. Dr. Raghavan stated in part: "The latter parts of witness Rosen-

⁸⁶ Response to USPS/PR-T2-8(c); Tr. 10/3160.

berg's analysis (USPS-T-3 [,] 21-33), where the detailed equipment modeling is performed, are not documented to an extent that it was possible for me to replicate this analysis." PR-T-2, pp. 6-7, Tr. 10/3107-3108. As another example, in response to USPS/PR-T2-11 (b), witness Raghavan states in part: "Other than a couple of examples on page 20 of her testimony witness Rosenberg does not elaborate much on the specifics of how and why she changed the solution provided by LogicNet to the final design of the December 5, 2011 network concept proposal."

Public Representative witness Raghavan supports quantitative analysis in postal network optimization, and makes a valid point: that much of witness Rosenberg's (or the Postal Service's) formally quantitative approach to modeling in this case appears to have been abandoned in favor of subjective "experience-based" input. He notes in response to USPS/PR-T2-12 (b) and (c) that: "If it is ultimately dependent on the experience-based input then there would be no place for the quantitative analysis in the proposed redesign"; and that "if the model was designed so that it accurately and reasonably accounted for their knowledge and constraints, then it is not clear that the alteration of model outputs based on experience necessarily results in a better decision." In other words, Dr. Raghavan makes clear in his interrogatory responses that such subjective input does not necessarily result in better decisions *if the quantitative analysis is done correctly*. The problem is that, in his opinion, it was not.

Among the incorrect aspects of witness Rosenberg's quantitative analysis are the following areas. (1) Witness Rosenberg did not re-run the LogicNet model after the initial run was "modified by human discussion" in order to see how that would work out. Such an iterative analysis is standard in such analytical work. (See witness Raghavan's response to USPS/PR-T2-11(b)).

Ms. Rosenberg did not develop a credible approach for addressing peak-load issues in network re-design. In his testimony, Dr. Raghavan maintains that the 95th percentile peak factor, used in the Rosenberg analysis, may not be adequate because of the possibility of back-to-back peak days during the work week. In response to USPS/PR-T2-14 (b) he re-states his point: "Suffice it to say from my testimony there is a problem in using the 95th percentile without a proper understanding of the traffic profile." If traffic volume is spiky generally, as the data suggest, and in addition there are back-to-

back peak load week-days, witness Raghavan concludes: "... then I do recommend using the 98th or 99th percentile."

USPS witness Rosenberg should have averaged originating and destinating volumes, and not relied solely on just originating volumes in determining feasible solutions, because consideration of the latter might make some originating volume solutions infeasible. Dr. Raghavan's answer states: "By taking the average of these two volumes the model would get a more appropriate demand volume from each 3 digit ZIP Code (originating and destinating) and compute a better solution to the problem." (See witness Raghavan's response to USPS/PR-T2-13.)

Finally, in response to USPS/PR-T2-14, PR witness Raghavan makes a point that GCA has also made repeatedly throughout this case, and elsewhere, when the Postal Service's proposed solutions to its operating deficits include major cuts in service for FCM. He states that: "It is well known in the service marketing literature that consumers are more likely to remember poor service." He further states that this academic literature: "... indicates that customers need to have as many as twelve positive experiences with a service provider in order to overcome the negative effects of one bad experience."

As applied to postal services, Dr. Raghavan states: "If in times of high volumes (when a larger number of consumers use postal facilities) postal service quality deteriorates (for example mail that currently takes 1 day, could take 3 days if there are disruptions and postal service quality deteriorates), then a larger fraction of consumers may use alternatives to the Postal Service."

Apart from Dr. Raghavan's critique of USPS witness Rosenberg's testimony, his alternative LogicNet model solutions, and his responses to Postal Service interrogatories, GCA addressed some additional (as well as some similar) issues in the 50 interrogatories it filed for USPS witness Rosenberg. The designated interrogatories and her responses begin at Tr. 4/1296. The most important of these and the responses are summarized below.

Ms. Rosenberg's responses to GCA interrogatories. There are two areas of Postal Service witness Rosenberg's testimony on which GCA focused in its interrogatories to the witness: First, a clarification as to what is driving the current inefficiency of DPS, and whether there are other ways of making it more efficient than ending overnight delivery of FCM. Second, a clarification of whether her work was constrained by assuming an end to overnight delivery, and if so why, and/or whether she examined other scenarios in which network rationalization could move forward under current service standards, or by eliminating only inter-SCF overnight delivery standards.⁸⁷

The "late mail" problem – or pseudo-problem? The crux of the problem that the Postal Service faces, which in its opinion requires ending overnight delivery, is summarized well by witness Rosenberg on page 4, lines 5 – 14 of her testimony.

The second pass cannot begin until all volume expected to be dispatched for delivery for the sort scheme has been processed through its corresponding first pass. This means that late arriving mail from a destinating plant's overnight originating partners ultimately constrains the DPS processing window at the destinating plant. The end time of the DPS processing window is fixed by current service standards, since mail must leave the plant by a certain time to be transported to the carrier stations for delivery that day to meet the overnight delivery standard. Thus, the later the second DPS pass is started, the more equipment the destinating plant needs on hand to complete the operation in time, since machine throughputs are a constant.

The Postal Service's proposal for relieving this bottleneck would change the processing window, from 11 p.m. of the day the mail is collected to 7 a.m. the following morning, to between noon of the day after it is collected to 4 a.m. the following morning. This would afford the Postal Service 8 more hours of DPS processing time once processing started, as FCM sat in its plants untouched an extra 13 hours compared to current service standards.

The Postal Service's case, and witness Rosenberg's contribution to it, rests on a dogmatically rigid interpretation of the business rules which it says must accompany its service standards for the overnight delivery of FCM. Witness Rosenberg responded "Confirmed." to GCA/USPS-T3-49 (b), which asked: "Please confirm that if 99 percent of

⁸⁷ PRC witness Matz states in response to USPS/PRCWIT-T2-7 (b): "Under the interim rules as states by the Postal Service, the elimination of inter SCF OND while keeping Intra-SCF OND will maintain approximately 80 percent of the OND volume."

the single-piece mail met the current service standards for the first two items on your six point binary scale, and only one percent did not, the network scenario envisioned would in essence be deemed infeasible for 100 percent of that mail.” Indeed, witness Rosenberg inferred in oral cross-examination that 100 percent of the single-piece mail would be deemed an infeasible solution if only a single letter was “late arriving mail”.. . (Tr. 4/1460, lines 6-11.) See also witness Rosenberg’s answers to GCA/USPS-T3- 38, 32 (a), 29 (a), 12 (d),

Since the problem is “late arriving mail”, then if almost all the mail destined for overnight delivery is not late, there is absolutely no credible reason of law, standards, rules or common sense that one can raise as a barrier or reason to withhold that on-time mail from the first and second DPS passes. PRC witness Weed states correctly that: “Therefore, the completion of the first pass is not dependent on waiting for the last committed tray to arrive from an inter OND paired facility.” (PRCWIT-T-1, p. 42; Tr. 11/4212.) Under the current service standards, business rules could be set that demarcated a hard cut-off time for receiving FCM for overnight delivery. Late arriving FCM under that rule would be processed the next day. This common sense solution was never proffered as an alternative to ending overnight delivery for all FCM. To say that doing so would violate the principle that all mail between given 3-Digit ZIP codes must have the same service standard neglects the fact that the Service itself is proposing different service commitments both between Single-Piece and Presort, and within Presort, apparently regardless of the previously-existing service standard for the ZIP code pair in question.⁸⁸

In fact, local plants do determine common sense solutions to problems such as these and regularly deviate from the one-size-fits-all business rules and operating windows currently in effect for overnight FCM.⁸⁹ That is one reason why PRC independent

⁸⁸ The Postal Service gave this institutional response to GCA/USPS-T3-44. “The question postulates that some of this mail should be held and processed for Day 2 delivery. This violates the 3-digit ZIP Code to 3-DIGIT ZIP Code First-Class Mail service standard, as all volume from one 3-digit ZIP Code to another has the same service standard.” Tr. 7/2513. Yet, in its final rule on the subject matter in this case, the Postal Service changed its proposed standard to allow intra-SCF overnight delivery of FCM, at least during an interim period.

⁸⁹ In response to GCA/USPS-T3-12, witness Rosenberg does acknowledge: “The operating plans are not standardized today. Each plant’s sort plans have different clearance times, depending on the dispatch of value trip to the delivery unit.” Tr. 4/1305.

consultant and witness Weed concludes in his testimony: “I think the proposed operating window change for the cancellation of outgoing primary will differ little from its current operation.” (PRCWIT-T-1, p. 39, lines 12-13; Tr. 11/4209.)

Predetermination of result regarding overnight delivery. The second area GCA pursued was whether witness Rosenberg concluded from her work that cutting excess mail processing capacity required ending overnight delivery, or whether she assumed overnight delivery was ended before she began her work. The question arises because of ambiguous statements on this issue not only from witness Rosenberg, but also from other witnesses, notably witness Williams, who stated in his testimony:

In June of 2011, senior postal management directed Network Operations to examine more closely the feasibility of a change in operations and how such a change could impact service standards and customers – with a focus on the service standards for First-Class Mail. (USPS-T-1, p. 6, lines 3-6.)

Clearly, the Postal Service did not proceed in this fashion throughout its analysis. After a certain point, it assumed an end to overnight delivery, and then examined “how such a change” could impact network consolidation. The way in which Ms. Rosenberg’s analysis was limited by the mandatory assumption of an end to overnight delivery is discussed in detail above, in section II.B. of this Brief.

In summary, the Postal Service can save more money and reduce deficits more than its own proposal by adopting the network optimization plan that emerges from Dr. Raghavan’s LogicNet model runs. His proposal would save between \$140 million and \$400 million more than the Postal Service’s optimization plan without changing current service standards at all, and most notably without ending overnight delivery for single piece FCM. Fourteen Postal Service interrogatories to Dr. Raghavan were answered by the witness on May 29, 2012. Based on the USPS questions and the PR witness’s responses, Dr. Raghavan’s model runs using LogicNet and his estimates of plant closings possible without ending overnight delivery are robust.

B. Another Alternative to Cutting Overnight Delivery of FCM

During discovery, GCA raised with more than one witness an alternative to cutting overnight delivery. It suggested that the Postal Service could change business rules so that "late arriving mail" in First-Class is not subject to the overnight standard, but reverts to two day mail. This would lengthen the DPS windows. A useful description of the constraints the Postal Service faces under its current DPS nightly processing is found in witness Neri's answer to GCA/USPS-T4-10 (b).

The DPS operation is comprised of 2 processing runs or passes of roughly equal volume. The current operating plan requires that plants complete DPS processing by 0700. This represents the latest time for mail to be processed and subsequently dispatched to the offices nearest the plant. Some DPS runs must be completed much earlier in order to allow for the additional travel time needed to reach the delivery office. Witness Rosenberg's testimony on lines 1-3 of page 2 refers to the time available between the last receipt of mail from an overnight office and the first dispatch time to meet the far away delivery offices. As she notes, "There are approximately four hours between when the last volume arrives...and the DPS TO DO second pass clearance time required to meet the dispatch of value." She does not say the DPS window is only 4 hours in duration, merely that about four hours exist between the last receipt of overnight committed mail and the dispatch of value for the earliest DPS office. This overnight mail must still run through the first pass and then the entire second pass must run prior to the dispatch.

The "late arrival problem" is at the heart of the Postal Service's arguments in this case to eliminate overnight delivery. However, during discovery GCA requested but was unable to obtain any quantitative estimate of how much overnight mail is late arriving mail. USPS witness Rosenberg responded to GC/USPS-T3- 12, which asked:

On page 4 lines 4-9, you state that "late arriving mail ... ultimately constrains the DPS processing window ...".

- (a) What percentage of each night's mail is "late arriving mail," as you have here used that expression?
- (b) Does late arriving mail fall outside of the cut-off times as reflected in current service standards?
- (c) If late arriving mail were withheld until the next day, what would be the increase above your four hours estimate in the DPS processing window with current overnight service standards?
- (d) What increase in DPS utilization rates would accompany the proposal in part c. above, and how many DPS machines could be eliminated as a result?

RESPONSE

A. I have not performed an analysis that would provide a basis for quantifying this phenomenon. The operating plans are not standardized today. Each plant's sort plans have different clearance times, depending on the dispatch of value trip to the delivery unit.

B. No. Late arriving mail, in this context, is volume arriving close to the end of the operating window.

C. Holding "late arriving" mail to the next day changes the service standard for that pair, and thus it is a service standard change expanding the window.

D. See the response to part C. Late arriving mail cannot be held to the next day while still maintaining service standards. Thus, the assumption laid out in the question describes an environment in which service standards are changed. I am not familiar with the term "DPS utilization rates." If the question is referring to DBCS utilization rates, since the hypothetical requires service failure, a response cannot be provided since the mail processing windows are still constrained to maintain current service standards.

For all the statistical minutiae that the Postal Service measures, it is indeed peculiar that it claims to have no quantitative estimate of the problem it claims is causing so much havoc with current operating procedures, namely "late arriving mail". If late arriving mail is by definition limited to inter-SCF mail, then the Postal Service could have so stated in response to GCA/USPS-T3-12. Instead, one is left asking: is it 1 percent of the overnight committed mail? Is it 10 percent? Or, is it 50 percent? If it is a relatively small percentage, for example 25 percent or less, why should 75 percent of the overnight committed mail have its service degraded to two-day delivery, just because 25 percent (or less) was "late arriving mail" that created bottlenecks in current processing windows? The Postal Service in this case was unable or unwilling to state the obvious. It could modify its current service standards or business rules so that "late arriving mail" could be defined, and relegated to two-day delivery. If moving mail from overnight delivery to two day delivery can be done for 100 percent of the mail, it can obviously be done for 25 percent (or less) of the mail. Typical of the unhelpful answers GCA received to this line of questioning is Postal Service witness Rosenberg's answer to GCA/USPS-T3-29.

On page 8, lines 1 – 9, you discuss what alternative windows were deemed feasible and infeasible.

- (a) Assume only one percent of the mail was collected after the collection processing window ended. Please explain why this small a percentage should lead to disqualification of that network alternative?
- (b) Assume one percent of the mail was processed after its delivery trip left. Please explain why this small a percentage should lead you to deem that alternative infeasible?
- (c) How many scenarios you deemed infeasible would be eligible for consideration as the new network if the cutoff, as regards both late mail situations covered by (a) and (b), respectively, was (i) ten percent late mail rather than zero percent, with the late mail being processed the next day, and (ii) five percent late mail rather than zero percent, with the late mail being processed the next day?

RESPONSE

- A. The Postal Service did not consider it appropriate to begin any network scenario with an assumption that some mail volume would fail automatically.
- B. See the response to part A.
- C. This analysis cannot be performed as the Scoring Tool only saves feasible results.

Postal Service witnesses in this case preferred to define away the issue and repeat the mantra of ending all overnight night delivery rather than exploring entirely viable and legal alternatives that solved the problem but saved overnight delivery of most mail. The Postal Accountability and Enhancement Act of 2006 gave the Service substantial authority and responsibility to set service standards (39 U.S.C. sec. 3691). That responsibility is not well served by erecting a screen of words rather than seeking to develop a set of standards and business rules that – even at the cost of somewhat more complexity – would allow it to maintain good-quality service while accomplishing the needed streamlining of its processing network.

III. Three Other Problems with the Postal Service's Case

A. Lost Volume and Net Revenue (Contribution) from Degradations in Service

There has been much debate in more than one docket now as to whether estimating the negative impact on postal services from a single deficit reduction proposal in isolation from all others makes any sense. GCA first raised this issue in N2010-1 in con-

nection with the Postal Service's proposal to end Saturday mail delivery.⁹⁰ One of the questions posed by Opinion Research Corporation (ORC) was whether customers surveyed would prefer an end to Saturday delivery over a rate increase. Their answer was that they would prefer an end to Saturday delivery. At the time of this survey, however, the Postal Service was proposing both a rate increase and an end to Saturday delivery.

GCA maintained that the survey answer was based on a false premise of "either/or" when in fact media coverage known to all Postal Service customers indicated the Postal Service was planning on ending Saturday mail delivery *and* raising postal rates.

Customer reaction to both proposals should have been a key question asked, because the combined impact on lost volume from simultaneously cutting Saturday delivery and raising rates would likely be larger than the impact on volume from just cutting Saturday delivery, or just raising rates, when the two changes in isolation are summed.

The same issues arose in N2012-1. At the same time the Commission was undertaking this docket, the Postmaster General suggested that Congress should raise the price of a single piece stamp to 50 cents. USPS witness Whiteman did not make reference to a 50 cent stamp but did raise the "either/or" question in his testimony about customers' choosing between a rate increase and the proposed change in service standards. In discussing the outcome of the ORC qualitative survey, Witness Whiteman raised the same issue no fewer than *seven* times in his testimony filed on December 5, 2011.⁹¹

⁹⁰ See Docket No. N2010-1, Initial Brief of the Greeting Card Association, pp. 19-20, discussing, in particular, witness Whiteman's answer to GCA/USPS-T9-6.

⁹¹ In his response to GCA/USPS-T12-9(a), witness Whiteman misconstrues GCA's interrogatory as having confused the qualitative market research with the quantitative. It did not. The point is that witness Whiteman raises the issue of "either/or" service standards or rate increases throughout his testimony, and it was clearly a central question in discussions with the IDIs with National and Premiere Account customers. "Many felt it is never good when an organization reduces service, especially if it also increases prices." (USPS-T12, p. 7, lines 3-4); "... most would prefer the changes in the service standards to significant price increases." (p. 8, lines 20-21); "Conversely, customers would not accept a significant price increase because it would not (by itself) ensure long term financial stability." (p. 9, lines 15-16); "However, these larger business customers generally do not support a reduction in service, especially if coupled with price increases." (p. 14, lines 18-19); "For many respondents price is the critical driver ..." (p. 15, line 19).

In response to GCA/USPS-T12-9 (b), he acknowledged

I would agree that if respondents were asked to quantify their mail volume responses to the sum of 1) changes in First-Class Mail service standards, and 2) an increase in the cost of a First-Class Mail single-ounce letter stamp to 50 cents, that the response could be greater than what we found in the market research sponsored by the Postal Service in this docket. However, without quantitative research to assess these two variables together it is not possible for anyone to say with certainty what the impact would be.

However, he asserted that GCA's "either/or" interrogatory confused qualitative with quantitative research. In point of fact, USPS witness Whiteman does make the following statement about the *quantitative* research.

Overall, the quantitative research indicates that customers will make changes to mailing practices by diverting mail volume to the internet and competitive shipping companies. While the qualitative research provides related indications of this, these impacts are quite clear from the quantitative research. When an organization reduces service, especially if it is also increasing prices, it should expect to see an impact on its business. (USPS-T12, p. 17, lines 19-24.)

This statement validates the position that GCA has taken all along in this case (as well as N2010-1), namely that survey research cannot meaningfully isolate the impact of one USPS deficit reduction proposal in the minds of survey respondents, when in fact two or more such proposals are being simultaneously advanced and publicized before the general public.

Beyond the issue of rate increases and service standard changes, USPS witness Elmore-Yalch responded to APWU/USPS-T11-19 (a) by saying that in one survey question, she acknowledged and had attempted to correct for multiple influences (but not rates) governing customers' volume responses:

[T]here was considerable media coverage of financial issues facing the Postal Service. This coverage encompassed issues beyond the proposed changes to First-Class Mail service standards. The statement regarding proposed changes presented in the qualitative research included a description of changes far beyond those related solely to changes to First-Class Mail service standards. It was clear in the qualitative research that participants considered many, if not all, of what they had heard about the Postal Service, such as the large deficit experienced by the Postal Service, the potential for defaulting on its payments, the implementation of Five Day Delivery in their response to the impact of changes to

First-Class Mail service standards. The purpose of including this question was to ensure that any impact on respondents' estimates for volume changes or how mail was sent was attributable exclusively to the proposed changes in First-Class Mail service standards while excluding any impacts resulting from collateral postal matters that gained sufficient media coverage at the time of the study.

The survey question to which she refers above was, in part, "What percentage of this [DECREASE/INCREASE] is solely because of the First Class Mail service standards that I described?" (USPS-T1-11 at 144, Appendix F, Part 3.)

The issue of multiple influences also arose in APWU/USPS-T1-10 and 13. USPS witness Williams was asked if he had knowledge of any analysis which evaluated the combined impact on customer service from the proposed service standard changes in N2012-1, from ending Saturday delivery (N2010-1), and from the retail optimization initiative (N2011-1). Witness Williams' answers were (to put it no more strongly) unhelpful: "The fact that I have not seen such an evaluation, by itself, does not prove the absence of such an evaluation." As we now know, there was one. One is reluctant to conclude that the Vice President for Network Operations, and the overview or policy witness in this case, was not shown the "all sources" study, but that is what the quoted answer seems to imply.

The evaluation of the combined impact on Postal volumes and net revenue changes from multiple degradations in service was in fact done by ORC but scrubbed by the Postal Service. In this docket, it was entered at Tr. 4/906, as APWU-XE-1, sourced as "All Sources", Market Research Preliminary Results. The table is in the exact same format as Witness Williams "Chart 1: Volume, Revenue, Cost and Net Contribution Changes With First-Class Mail Service Standard Changes", which appears at page 22, lines 18-20 of his testimony.

As Table 1 below shows, it makes a huge difference on lost volume from customers whether the impact of the proposed service changes in customers' minds is measured *in isolation* from other proposed changes or together with other "media coverage" known to USPS customers listing a *combination* of proposed degradations to customer service. The data below are in millions of units based on FY2010 RPW volumes.

Table 1

<u>Product</u>	<u>Volume Change</u>		<u>Net Revenue Change Due to Service Cuts</u>	
	<u>In Isolation</u>	<u>Combined</u>	<u>In Isolation</u>	<u>Combined</u>
FCM SP	-871.3	-3,251.6	-\$201.3	-\$751.1
FCM Presort	-645.6	-3,806.4	-\$147.2	-\$867.9
Total FCM	-1,517.0	-7,058.0	-\$348.5	-\$1,619.0
Total Standard	-1,164.6	-4,373.8	-\$78.0	-\$293.0
Total Periodicals	-155.9	-1,432.1	+\$13.3	+\$121.7
Priority/Express	-44.4	-122.7	-\$85.4	-\$173.0
TOTAL	-2,881.8	-12,986.5	-\$498.6	-\$1,963.3

Focusing on single piece, the negative impact on volume from all three proposed degradations in customer service is 373 percent greater than looking at just the degradation of service from ending overnight delivery. The total lost volume from the combined service degradations proposed is nearly 13 billion pieces annually at FY2010 postal volumes, 451 percent more than looking at just the Postal Service's effort of lost volume due to service standard changes in isolation from other service degradation proposals.

The combined impact on lost volume is over 9% of total FCM using already depressed FY2010 volume baselines. It is a loss of baseline revenue from FCM of 4.7%. The combined impact on Standard is 5.3% in lost volume and 1.7% in lost revenue from the FY2010 baseline. These are staggering losses in volume and revenue, especially in FCM, relative to the supposed greater efficiencies and "deficit reductions" accompanying the three degradations in customer service. They raise serious questions about the Postal Service's Universal Service commitments given the directions it is pursuing to trim deficits.

B. A Second Problem with Volume Loss Methodology

In NALC-T-1⁹², Professor Michael Crew raises serious flaws that exist with USPS witness Elmore-Yalch's testimony, notably her effort to reduce respondents' estimates of

⁹² Tr. 11/3542 et seq.

volume loss resulting from the end of overnight delivery using a “likelihood factor” and a “solely attributable” factor. The former issue was raised by witness Crew in N2010-1, the “five day” case. The Commission concluded in that case:

The Commission finds that there is not, in the record, any evidence demonstrating the use of a likelihood factor in the way the Postal Service utilizes it. Furthermore, there is no support for the contention that the participant’s estimates of their volume responses to five-day delivery were likely to be overstated. Therefore, reducing the estimates using an expected value function or “likelihood factor” is not appropriate.

Advisory Opinion on Elimination of Saturday Delivery,
Docket No. N2010-1 (March 24, 2011), at 112-13.

GCA agrees with much of witness Crew’s analysis. He notes correctly that a cut in service standards is tantamount to a real increase in the price of postal services.

Most importantly, NALC witness Crew points out that USPS witness Elmore-Yalch asks a survey question that is redundant with an earlier question. The earlier question asks about volume impacts from a decline in service standards. No other factor is mentioned other than service standards in the survey question. Then, witness Elmore-Yalch asks a follow-up question about changes in volume being solely attributable to the proposed change in service standards. As Crew points out, she engages in this redundancy apparently so that she can apply a second “solely attributable” factor in addition to the Commission-rejected “likelihood factor” to further reduce respondents’ raw estimates of volume loss as a result of service standard changes. Using a hypothetical volume of 100,000, she reports a 10% drop in volume as a result of survey responses.⁹³

⁹³ Crew frames the issue as follows. “However, the question posed to the respondent to elicit the respondent’s estimate of mail volume drop asked for an estimate of mail volume “under the First-Class Mail Service standards.” USPS-T11, at 145 (Question U7A). The respondent was not asked to consider any causes for a possible change in mail volume *other* than the proposed first-class mail service standards. Since the question posed to the respondent was already limited to a drop in mail volume caused by the proposed service standard changes, no basis existed to further reduce the estimated drop in mail volume by the “solely attributable” factor. Indeed, ORC did not use such a “solely attributable” factor to adjust downward estimates of lost mail volume in the 5-day case. There was no legitimate basis for making such an adjustment in the 5-day case and, likewise, there is no basis for it here either.” (NALC-T-1, pp. 10-11; Tr. 11/3552-3553.)

However, she uses a likelihood factor of 50 percent to reduce the 10,000 drop in volume to 5,000. Crew explains the illogic of doing this with a simple probability example. If people are asked in 100 flips of a coin how many times it will fall on heads, most will answer 50 times.

However, then if they were asked how likely they thought their estimate would be accurate, they would express less than 100% certainty -- say, 80%. It would obviously be wrong to multiply this uncertainty factor of 80% by 50 to conclude that the respondents' best estimate of the number of heads would be 40! However, ORC employed exactly this sort of illogic.

(NALC-T-1, p. 9, lines 19-25.)^[94]

There is another criticism of witness Elmore-Yalch's methodology that witness Crew discusses, which also affects her estimates of volume losses as a result of ending overnight delivery. Witness Elmore-Yalch describes the quantitative market research conducted in October and November 2011 to enable the Postal Service to forecast the percentage changes in volume resulting from service standards changes for First-Class Mail™ and Periodicals™. To understand these it is useful to quote USPS witness Whiteman, who supervised witness Elmore-Yalch's survey research and summarizes the results of it in his testimony.

Overall, we conclude that the impact on volume, revenue and contribution from the changes in the service standards will be a reduction of 2.9 billion pieces or 1.7 percent of total volume, producing a loss in revenue of \$1.3 billion or two percent, and a loss in contribution of \$499 million or two percent, using FY2010 volume, revenue, and contribution data.

⁹⁴ We suppose it might be argued that witness Crew's example involves a person predicting random events on the basis of a law of probability and then in effect admitting that the prediction is only a probabilistic one, while the Postal Service's research involved a manager predicting actions he/she would deliberately take. But this makes no real difference. In both situations, the predictor is acknowledging the possibility of error, but without specifying the sign of the error. In either case, therefore, applying a "likelihood" factor to *reduce* the estimate – simply because that factor is, necessarily, less than one – is irrational. When one estimates the likelihood that a prediction one has made will be correct, one is acknowledging that one may have *either* overestimated *or* underestimated the true value. The Postal Service's approach unjustifiably presumes that the predictor's error, if any, will always be an overestimate and that this will be implicit in the predictor's answer to the likelihood question. Of course the result of this procedure – whether intended or not – is to reduce the total estimated volume and net revenue loss.

To understand how to evaluate this estimate, it is important to recognize that when respondents are asked to estimate their responses to proposed changes such as new product introductions or changes in channel option or service features, they tend to overstate their reactions for several reasons:

1. Market research creates 100 percent awareness in the marketplace, a condition that never exists in reality. When some customers are unaware of a change, they are unable to react as they might indicate they would when asked in a context that forces 100 percent awareness.
2. Customers often act less decisively than they indicate they might when asked directly. In reality, customers experience some amount of inertia when faced with change; change in itself can be difficult such that an affirmative response may be inhibited or delayed.
3. Market research also compresses all estimates of change to a single point in time, when, in reality, the estimated change may take effect over a much longer period of time.

(USPS-T-12, p. 7 lines 14-22 through p. 8 lines 1-16.)

It is clear that the context of witness Whiteman's three points is the survey research conducted by witness Elmore-Yalch in the service standards case, not just a set of abstract principles applicable to survey research generally. The second paragraph from his testimony above makes clear the context. A charitable interpretation of the entire statement may have been witness Whiteman's concern that intervenors or the Commission might find it strange that Elmore-Yalch would whittle down the 10 percent volume loss that emerges from her survey research to just 2.5 percent. Hence, he is at pains to answer why 10 percent is likely an over-reaction by respondents in this case. Crew himself acknowledges the second and third points witness Whiteman makes as part of his own argument, without mentioning witness Whiteman.

Witness Whiteman on the other hand answers a GCA interrogatory in a way that directly contradicts his own testimony with reference to point 1 above. In response to GCA/USPS-T12-10 (c), witness Whiteman answered: "Not confirmed. It should be noted that ORC did not adjust its volume estimates for "overstatement of reactions."" In the quotation from his testimony above, however, he summarizes the volume loss estimate of Ms. Elmore-Yalch in this case, and then makes points 1 through 3 in order "to understand how to evaluate this estimate." The wording is unambiguously clear. Points one

through three are referencing not only survey research in general, *but* witness Elmore-Yalch's survey research in this case.

Ms. Elmore-Yalch herself belatedly recognized the problem of "100 percent awareness" in this case, not in her testimony, but in response to APWU/USPS-T11-19 (a). "There was considerable media coverage of financial issues facing the Postal Service. This coverage encompassed issues beyond the proposed changes to First-Class Mail service standards." Clearly, this is a recognition that there was considerable awareness of the proposed end of overnight delivery by the general public. On these grounds it is highly unlikely the sample respondents' estimate of volume losses was any different than the general public as the enormous publicity surrounding the details of this case were as well known to levels approaching 100 percent of the public as they were known to participants in the survey.

Mr. Whiteman's answer to the GCA interrogatory was an exercise in pure semantics. Using the illustrative volume levels from witness Elmore-Yalch's Table 41, ORC and USPS estimated the volume lost from ending overnight delivery at 2,500 units. The raw survey data of 10,000 by definition was an "overestimate", the technical analyses used to "correct" the overestimate notwithstanding. Rather than *explicitly* correcting for Mr. Whiteman's first point as to why survey respondents tend to over-estimate their responses, the Postal Service and its witnesses simply used questionable applications of techniques which led to them to the same result, namely their "likelihood factor and their "solely attributable" factor.

C. A Third Problem with Volume Loss Methodology

On June 22, 2012, the Postal Service submitted surrebuttal testimony. In one expert testimony, USPS-SRT-4, witness Elmore-Yalch seeks to rebut criticisms made by APWU witness Crew concerning her use of weighted probabilities to reduce the lost volume from service standard changes that emerged from her raw survey of respondents. In the other expert testimony, USPS-SRT- 3, witness Marc McCrery seeks in part to rebut APWU witness Schiller's testimony, and asserts that speed is not an issue for Postal Service customers.

Witness McCrery's testimony focuses on priority mail and parcels, and takes issue with many of the points raised in APWU Schiller's testimony. However, he also makes statements about FCM generally, notably the following at page 19, lines 14-22 through page 20, lines 1-7.

His conclusion is premised on the unsubstantiated view that customers who send local, single piece First-Class Mail consider overnight service a critical attribute. However, market research conducted by the Postal Service consistently shows what they have told us over the years: reliability, ease of use/convenience, and affordability are the attributes they consider critical. Customers indicate that if they needed a day specific delivery, they would make sure they would send First-Class Mail a day earlier or they would use an expedited service, such as Express Mail or Priority Mail.

This unchanged customer perspective is also shown in the Postal Service's customer satisfaction program. A 1992 Government Accountability Office audit showed that customers focus on factors other than transit time. The Postal Service has been able to improve its aggregate ratings over time by focusing on what it learned from this audit. Predictability and consistency are more important for First-Class Mail customers than speed can ever be, given that other market alternatives have long ago positioned themselves as the high-speed alternatives to First-Class Mail. Hence the segment of customers for whom speed is the critical concern have long since relied on shipping and mailing alternatives other than First Class-Mail.

Using a 1992 GAO study to assert that speed is not, today, an important attribute of postal services is without merit, because Internet diversion of FCM mail based on the superior speed of the Internet had not begun at that time. Even before the advent of broadband in particular, facsimile technology and deregulation of long distance calling rates took away a share of the Postal Service's business based on speed. Witness McCrery's last sentence is so at odds with every known forecast it bears repeating: "Hence the segment of customers for whom speed is the critical concern have long since relied on shipping and mailing alternatives other than First Class-Mail." If this were true, then there would be no future problem of Internet diversion, and no financial crisis whatsoever five, ten or twenty years out, for the Postal Service. It presumes that Internet diversion will not take away any more of the Postal Service's customers, that anyone who wants faster delivery of transactions, personal correspondence, banking or other mail has already abandoned mail.

The fact is that overnight delivery of FCM is the one remaining vestige of “speed” to which the Postal Service can point in its market-dominant services. If the numerous surveys since the onset of broadband diversion asked just one additional question, the Postal Service could not continue to maintain its comfortable illusion that speed is unimportant to its customers. That question would poll customers who have recently moved to broadband and away from postal services: “Was speed of delivery an important consideration for you in abandoning postal services in favor of broadband generally? (a) For transactions? (b) for personal correspondence? (c) for banking?”⁹⁵

The answers to this question are so obvious that it will never appear in a survey sponsored by the Postal Service. Since relatively early days of Internet diversion the speed of postal services has been contrasted with “e-mail” by a pejorative reference to a snail, applied to hard copy mail. It is a term that is nonetheless so universally used throughout society that it renders meaningless survey interpretations claiming speed of Postal Service mailing services is unimportant to its customers or prospective customers.

Indeed, the Internet and broadband has over the course of years now become an increasingly perfect substitute for FCM other than packages. An e-mail did not originate as a strong substitute for a signed letter, personal correspondence or other matters requiring a signature. With the advent of scanning and the ability to send a letter attachment via e-mail with a signature in PDF format, however, there is an e-product that is a near perfect substitute for a signed sealed letter sent via FCM. It is increasingly accepted for most venues as a legal signature in lieu of an inked signature sent via hard copy mail.

IV. Questionable Premises in the Postal Service’s Case

A. The Postal Service’s Claim It Has Always Adjusted Capacity in the Past to Match Volume Expectations Is Not Supported by the Historical Facts

⁹⁵ For confirmation, please refer to the testimony of Claude R. Martin, Jr., submitted by GCA in Docket R2006-1 (GCA-T-2, pp. 22 et seq.). Dr. Martin surveyed household bill-payers concerning the “diversion attributes” that would incline them to switch from postal to on-line payment. “Timing” and “Due Date Receipt” – both clearly associated with speed – were both highly important diversion attributes.

This issue is important in N2012-1 because the Postal Service claims its excess capacity is a relatively recent phenomenon due solely to *external* factors beyond its control, notably the 2008-2009 recession and possibly an acceleration of internet diversion accompanying the recession. It is a quite different matter if the Postal Service itself is responsible for allowing excess capacity to grow before and even at the start of the recession. If excess capacity was also caused by internal, not simply external factors, one has to seriously question whether customer service should suffer degradation because of deficient investment decision making at the Postal Service.

In his testimony, Postal Service witness Williams states at page 12, lines 3-5, that “Investment in additional machinery and facility space was prudent and affordable during periods when mail volume was more robust and growth could confidently be predicted.” Likewise, when Postal Service witness Neri⁹⁶ was asked in GCA/USPS-T4-1 (a) “Please confirm there was excess processing capacity within the Postal Service before 2006.” his response was: “Confirmed, but up until 2006, volumes were growing. Therefore, some of this excess capacity was used to accommodate the volume growth.”

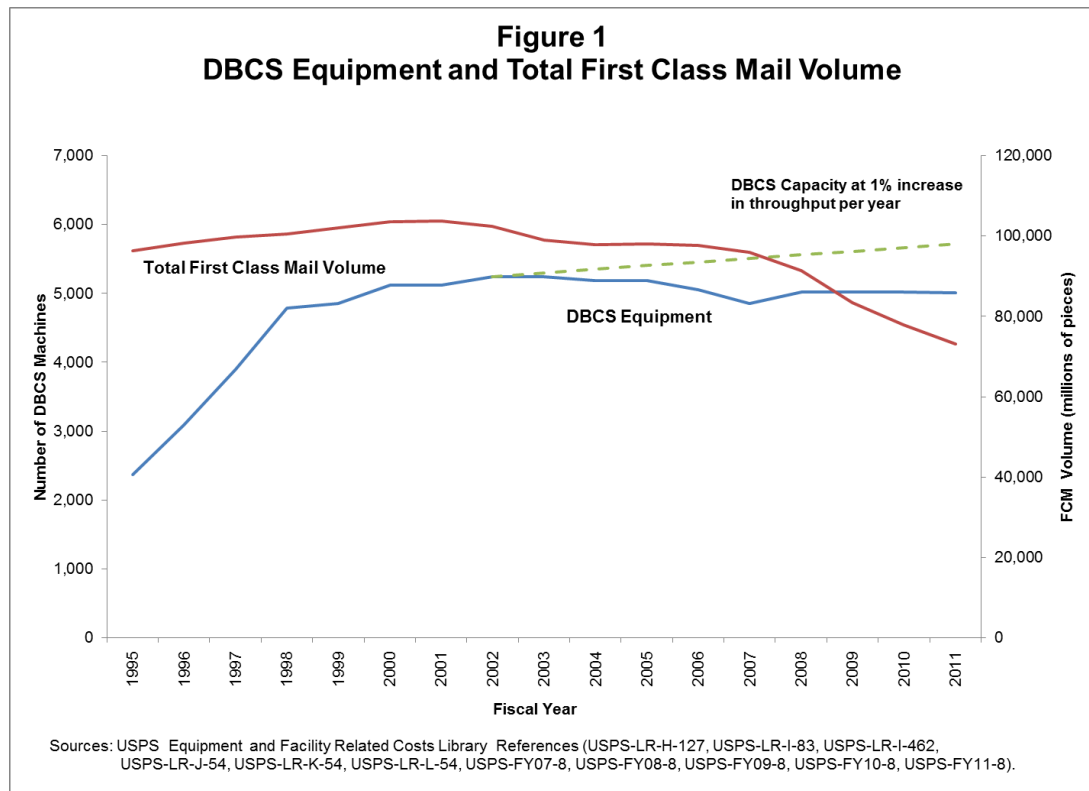
In a follow-up GCA interrogatory, witness Neri clarified that he was talking about total mail volume.⁹⁷ Yet, clearly, the issues surrounding volume losses have been almost exclusively in the arena of FCM. It is an untenable position for the Postal Service to assert, as witness Neri did in response to GCA/USPS-T4-17 (e) - (g) that it made mail processing investment decisions back then without tracking the trend volumes of FCM specifically because all mail requires DPS processing. DPS processing was not as significant a share of mail processing until more recent years.⁹⁸ In his response to GCA/USPS-T4-17 (a) (i), witness Neri did acknowledge, however, that total First-Class Mail peaked in 2001.

⁹⁶ GCA's interrogatories to Mr. Neri and his answers begin at Tr. 5/1929.

⁹⁷ USPS response to GCA/USPS-T4 17 (a) (i) – (iv), revised March 21, 2012.

⁹⁸ In R2000-1, USPS witness Miller reports the DPS percentages for FCLM as 53% for non-auto presort, 72% for basic auto, 74% for auto 3D, and 78% for auto 5D. The percentages were somewhat lower in R97-1, where USPS witness Hatfield reported DPS percentages of 46% for non-auto presort, 64% for basic auto, 66% for auto 3D and 70% for auto 5D. (See R2000-1, USPS-T-24, Appendix I, and R97-1, USPS-T-25, Appendix I, pp. 21, 25, and 29.

Single Piece mail volume peaked and began to decline around 1995. Total FCLM volume peaked around 2001, and has declined annually since that time. (See [Figure 1](#)).⁹⁹ The reason for the long and persistent declines in First Class Mail volumes is not due to the two recessions that have occurred over this period. It is due to electronic diversion of FCLM, especially single-piece.¹⁰⁰



The Postal Service should have recognized these volume trends years before it in fact did, and begun to reduce its mail processing capacity accordingly, rather than taking the meat-axe approach it has now been forced to take in the AMP process and es-

⁹⁹ The full citations by rate case or ACR are as follows. In every case USPS economist Marc Smith produced the data, so there is continuity in methodology. Before R2005-1 the file name used for this data was FACLTxx and after FCILTYxx was used. R97-1 USPS-LR-H-127 FACILT96.XLS EQUIPMENT; R2000-1 USPS-LR-I-83 FACILT98.xls EQUIPMENT; R2000-1 USPS-LR-I-462 FACILT99.xls EQUIPMENT; R2001-1 USPS-LR-J-54 FACILT01.xls EQUIPMENT; R2005-1 USPS-LR-K-54 FCILTY04.XLS EQUIPMENT; R2006-1 USPS-LR-L-54 FCILTY05.XLS EQUIPMENT; ACR2007 USPS-FY07-8 FCILTY07.XLS EQUIPMENT; ACR2008 USPS-FY08-8 CILTY08.XLS EQUIPMENT; ACR2009 USPS-FY09-8 FCILTY09.XLS EQUIPMENT; ACR2010 USPS-FY10-8 FCILTY10.XLS EQUIPMENT; ACR2011 USPS-FY11-8 FCILTY11.XLS EQUIPMENT

¹⁰⁰ See Docket R2010-4R, GCA Initial Comments, Detailed Analysis, pp 8-12..

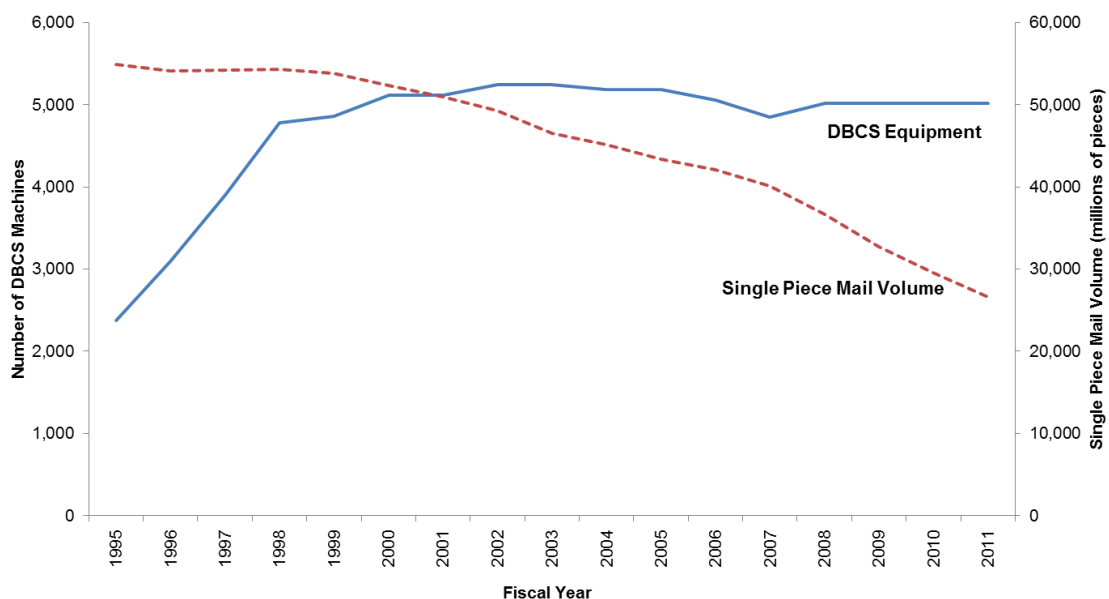
pecially in N2012-1 proposals.¹⁰¹ Instead it continued to increase mail processing capacity through about 2004. (See [Figure 2](#)). The census of DBCS equipment in the network has remained roughly flat since that time. However, at exactly the same period where Internet diversion of single piece letter mail became evident, the Postal Service also rapidly ramped up CSBCS equipment, between 1995 and 1997. (See [Figure 3](#)). That stock remained in place through 2006 despite the fact that FCLM as a whole (Pre-sort and single piece) peaked in 2001.¹⁰² Finally, while the Postal Service did phase out traditional MLOCR equipment, especially after 2005, it replaced that equipment with more technologically current OCRs, notably DIOSS and CIOSS, new purchases as well as retrofitting older OCRs with the latest technology kits. (See [Figure 4](#)).¹⁰³

¹⁰¹ The figures belie the claim made by Postal Service witness Williams that: "Investment in additional machinery and facility space was prudent and affordable during periods when mail volume was more robust and growth could confidently be predicted."

¹⁰² See USPS OIG Report Number NO-AR-06-005, p. 2: "The Postal Service placed over 3,700 CSBCSs in its facilities to increase overall processing capacity nationwide in anticipation of increased letter mail volume. Unfortunately, the entire projected growth of letter mail volume did not occur. Although the Postal Service projects that Standard Letter Mail will increase by over 5.8 billion pieces from fiscal years (FY) 2006 through 2010, First-Class Letter Mail is projected to decrease by over 8.6 billion pieces during the same period." Also, USPS Report DR-AR-10-004, p. 4.

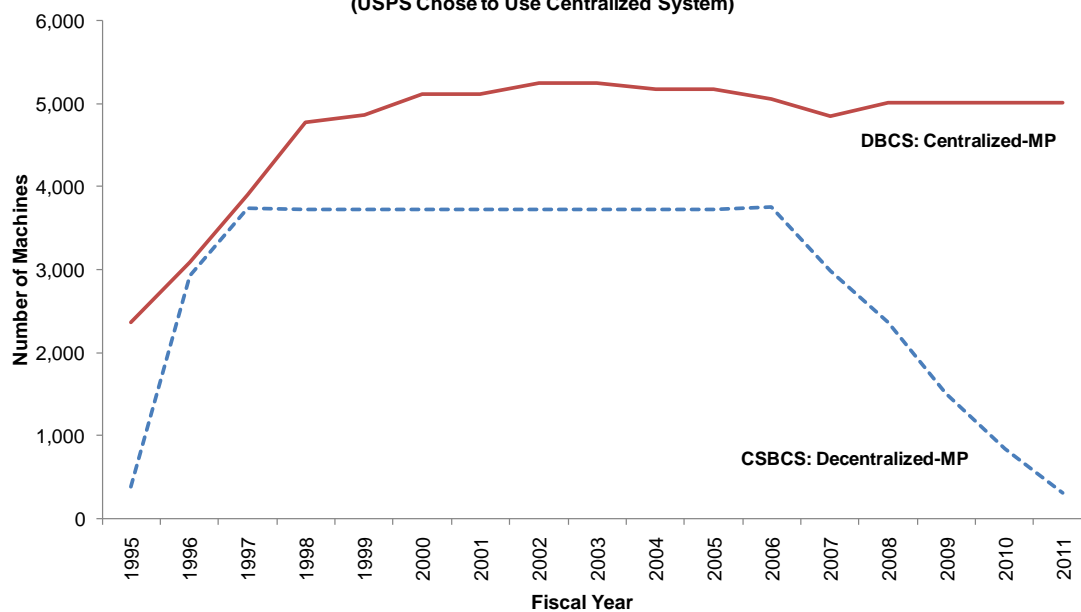
¹⁰³ USPS numbers in GCA/USPS-T4-17 c. and d. are lower than our sources from rate case and ACR data, but follow the same general historical pattern. Our data is methodologically consistent year by year and was prepared by Marc Smith at the Postal Service or under his supervision. The Smith Library References span rate cases from R97-1 through R2006-1 and ACR's from 2007 through 2011.

Figure 2
DBCS Equipment and Single Piece Mail Volume

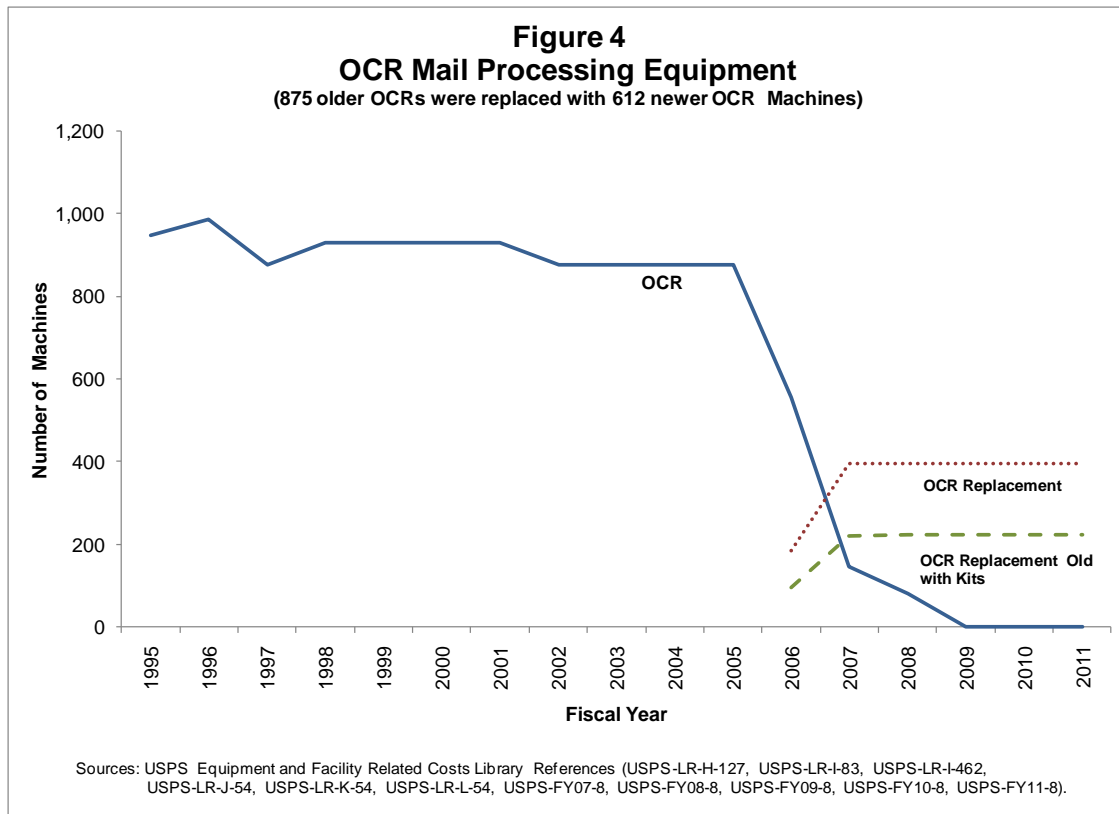


Sources: USPS Equipment and Facility Related Costs Library References (USPS-LR-H-127, USPS-LR-I-83, USPS-LR-I-462, USPS-LR-J-54, USPS-LR-K-54, USPS-LR-L-54, USPS-FY07-8, USPS-FY08-8, USPS-FY09-8, USPS-FY10-8, USPS-FY11-8).

Figure 3
CSBCS & DBCS Mail Processing Equipment
(USPS Chose to Use Centralized System)



Sources: USPS Equipment and Facility Related Costs Library References (USPS-LR-H-127, USPS-LR-I-83, USPS-LR-I-462, USPS-LR-J-54, USPS-LR-K-54, USPS-LR-L-54, USPS-FY07-8, USPS-FY08-8, USPS-FY09-8, USPS-FY10-8, USPS-FY11-8).



The stock of mail processing equipment is by itself not a very good measure of mail processing capacity. It would be only if the throughput in letters processed per hour per machine remained constant over time. In fact, focusing on DBCS equipment, there have been to date six upgrades to the original DBCS series one machines. While never put into widespread use, DBCS series 7 alone was said to have a 30% greater throughput than DBCS series 6.¹⁰⁴ Figures 1 and 2 project forward from 2002 what actual mail processing capacity has been assuming a very modest 1% increase in throughput per year as newer series of DBCS come online and are phased in, and as older DBCS Series 1. and 2. machines in particular are phased out.

What this exercise shows is that it is unlikely that mail processing capacity has remained flat or in modest decline through the present. It is as likely that the Postal Service through 2011 has been increasing DBCS mail processing capacity as measured by

¹⁰⁴ See PostalReporter.com, Postal Delivery Bar Code Sorter Machines, originally published in the Denver Post, 8/19/09: "The DBCS 7 is an even MORE flawed design than the current DBCS, because according to PMG Potter himself, this new generation of DBCS will have "30% more throughput".

throughput per machine per hour multiplied by the number of machines, ever since it first ramped up the volume of DBCS equipment from 1995 through 2002.

In R2006-1, expert witnesses for GCA were able to show one possible reason why the Postal Service continued to invest in greater mail processing capacity. Its econometric forecasting model systematically under-estimated the impact that a rate increase for FCM would have on postal volumes. The structural flaw in its model was the way Internet diversion was measured and how that skewed the price elasticity used in its volume forecasts before and after a rate increase for single piece letters.¹⁰⁵

In summary, the Postal Service should not have relied on flawed forecasting models of postal volumes, Internet diversion and historical own-price elasticities in making decisions about mail processing capacity going forward. It should have looked at actual mail volumes, especially single piece, since 1995 and, later, Presort, and begun cutting mail processing capacity step by step with Internet diversion, rather than waiting until 2008 - 2011 to begin cutting capacity seventeen years after Internet diversion had begun. Thus, while there are certainly important external forces beyond the Postal Service's control mandating large cuts in mail processing capacity, the Postal Service itself bears some internal responsibility for the present condition of excess capacity due to deficient investment decisions made between 1996 and 2008.

B. This Particular Section 3661 Case Also Requires Consideration of Section 3622 or 3633 Since the Cut in Service is a Quality Adjusted Rate Increase

GCA asked an interrogatory (GCA/USPS-8) intended to address the impact of the proposed service change on the *value* of an FCM product to the consumer and the implications of that for the *price* of the product. The question asked was general in nature, and only referred to a hypothetical "postal product, P_i". The Postal Service objected to the interrogatory on the grounds that GCA was seeking information irrelevant under Section 3661 of Title 39 United States Code, on which it brought the case to the Com-

¹⁰⁵ See Docket R2006-1, GCA-T-1, Direct Testimony of James A. Clifton on Behalf of the Greeting Card Association. In the course of Docket N2012-1, and of postal reform debate in the Congress, consultants for GCA went back and examined the PRC's outside consultant's review of that testimony. Running GCA's model using GLS rather than OLS regressions did not change GCA's results.

mission. It argues that issues of price theory or postal pricing criteria fall under Sections 3622 and 3633.

GCA chose not to reply to the objection with a motion to compel at that time, as the Postal Service's answer might have been found to have merit on legal grounds. The issues raised in GCA's interrogatory were not lost, however, as they were the focus of testimony submitted on behalf of the Public Representative, PR-T-1.¹⁰⁶ The economic fundamentals of a degradation in customer service cannot be parsed into tidy boxes in the Code of Federal Regulations. They necessarily join section 3661 and sections 3622 or 3633 at the hip. Put differently, the proposed cut in service standards brought to the Commission under section 3661 has clear-cut and indisputable implications for sections 3622 or 3633. Indeed, the Postal Service's entire case in N2012-1 rests on changes in mail processing and transportation costs, which are the building blocks of prices on the supply side.¹⁰⁷

Therefore, one cannot submit a request for this advisory opinion on grounds of just one section of the CFR, 3661, without *simultaneously* at least acknowledging that it has implications for 3622 or 3633, since one or both of these are inexorably and necessarily impacted by the proposed change in service standards under 3661. The change in costs might affect price, the shift in market demand from a degradation of service certainly will under competitive conditions in a free market or as replicated under regulation.

In sections IV., VI. and VII. of his testimony, PR witness Neels discusses the relationship between price caps and quality concerns in a regulatory environment. GCA agrees with witness Neels' conclusion that "in making this request for relief the Postal Service is essentially balancing it[s] budget on th[e] backs of customers of market dominant services." (N2012-1, PR-T-1, p. 16.)

¹⁰⁶ Dr. Neels's testimony begins at Tr. 10/3226.

¹⁰⁷ The text of GCA/USPS-8 was as follows:

(a) Please confirm that the price of a postal product, P_i , should equal its marginal utility, V_i , (value) to the buyer, according to microeconomic theory under competitive conditions. If you do not confirm, please explain why? (b) Please confirm that if there is a change in that product that reduces its marginal utility or value to the consumer to V_j , where $V_j < V_i$, that a new equilibrium is only reached after the price of the product moves in the direction of $P_j < P_i$ until $P_j = V_j$. If you do not confirm, please explain why.

Witness Neels notes that The Bureau of Labor Statistics (BLS) has long recognized the need to account for quality changes in its price index research, and that the notion of a quality – adjusted price is one way of doing so. He states:

Similarly, when the quality of a product gets worse, such as a longer delivery time standard, the quality adjusted price rises. The price is the same, but the buyer gets less for the money. A reduction in quality is an increase in the quality-adjusted price. (PR-T-1, p. 13.)

In a regulatory context, he notes that: “the strong incentives for cost reduction associated with price cap regulation can also incentivize the regulated firm to reduce the quality of the service it offers.” (PR-T-1, p. 13) And that:

Hence, there has been long standing regulatory concern over the potential adverse consequences of price cap regulation for quality of service. This incentive has been recognized in the literature for some time. (PR-T-1, p. 13.)

The upshot of this in witness Neels's expert opinion is:

If quality is reduced the effect on consumer welfare is the same as if price is increased. There has thus been concern that reductions in service quality could provide a regulated firm with a way to circumvent the intended effects of the price cap. (PR-T-1, p. 14.)

The Postal Accountability and Enhancement Act (PAEA) established not only a price cap regime, it also established a set of minimum quality standards in an effort to attenuate the ability of the Postal Service to appropriate the benefits of any cost reduction it achieves. (39 U.S.C. sec. 3691.) Witness Neels states, however, that:

The inevitable conclusion that must be drawn from these observations is that the reduction in service standards that the Postal Service has requested is, in effect, a relaxation of the of the price cap that has been established for market dominant services. (PR-T-1, p. 15, lines 17-19.)

For the above reasons summarized by witness Neels, it appears that these rate and price cap issues are necessarily woven into N2012-1.